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THE FINANCE BILL, 1951: THE DEBATE CONTINUED – IV

AT the report stage of the Finance Bill, four new clauses, all put down by the Government, were added to the Bill on the first day, Thursday, June 28th.

Gifts to the National Trust and other bodies

The exemption from estate duty which Section 31 of the Finance Act, 1937, and Section 31 of the Finance Act, 1949, provide in respect of land and maintenance funds given to the National Trust is to be extended

(1) to any objects ordinarily kept at the time of the gift in a building forming part of the land and given by the donor of the land with a view to their preservation or use in the building;

(2) to any building (together with its grounds) given to, or in trust for, a Government department, local authority, or any other body not established or conducted for profit, with a view to its preservation for the public benefit, provided that the Treasury direct either before or after the gift that the gift falls within the subsection.

The first subsection provides that, although the same person must make the claim for exemption in respect of the building and its contents, the claims need not be made at the same time.

Under the second subsection, the Treasury may not give a direction unless in their opinion the building is one for the preservation of which special steps should be taken by reason of the cost and the building's outstanding historic, architectural, or aesthetic interest, and unless the department, authority or body in question is an appropriate one to take on the responsibility. The Treasury may require such undertakings as they think appropriate for securing the preservation of the building, for restricting its use and disposal, and for providing reasonable public access. These undertakings may be varied from time to time by agreement between the Treasury and the person bound, and are enforceable by injunction.

The Commissioners will have a discretion, where property is given as a source of income for the upkeep of any land or objects to direct that so much only of the income shall be deemed to be so given as is in their opinion sufficient for the purpose, having regard to any other property given by the same or any other person.

The Clause is to apply to duty leviable on or with reference to any death occurring after the commencement of the Act, whenever the gift was made.

Private companies and estate duty

Every year a considerable amount of time is found for general discussions on different aspects of taxation, which though useful, and indeed, essential, are unlikely to bear legislative fruit. It seems a pity, therefore, that when Section 55 of the Finance Act, 1940, came at last under review after several attempts in previous years, the debate should have been so short. Though the Opposition speakers made some telling points they did not really develop the subject, whilst the Government benches could only muster a statement from MR EDWARDS, a short speech, and a number of personal comments by way of interruption.

The unreasonable results to which Section 55, and indeed the whole of the 1940 estate duty legislation may lead, scarcely need to be emphasized to accountants. Suffice it to say that whereas the private company became extremely popular soon after its introduction in 1908 and conferred an undoubted boon on the industrial and trading community, it is becoming a pitfall for the unwary. Indeed, anyone forming such a company except under the advice of an experienced tax practitioner may well pay dearly for his incaution unless his means are very modest when he dies.

Part IV of the Finance Act, 1940, which greatly strengthened the legislation of ten years previously, was really aimed at persons whose main object in forming a limited company was to avoid estate duty. It was debated in Dunkirk week – not the most suitable time for examining a dozen of the most complicated sections in the statute book – and its drastic nature may not have been fully appreciated. The position of such shareholders has not been equated with but may be worse than that of persons trading individually.

In effect, a disadvantageous method of valuation is imposed in respect of certain companies because their shares are not distributed amongst a sufficient number of people, regardless of whether the individuals concerned have used the company as a mere device or are bona fide traders. However, the complaint has generally been the economic one that family businesses are being forced to sell up or to float a public issue in order to pay death duties – which is almost impossible to demonstrate effectively by means of statistics.

It is presumably complaints on these lines made by such bodies as the National Union of Manufacturers which engendered the Inland Revenue inquiry to which MR EDWARDS referred in his speech. He disclosed that

> 'there are about one hundred cases a year which can be described as hardship cases, using that word in a particular way, namely, to describe any cases in which the estate duty on the total assets exceeded the non-trading assets so that some part of the duty would have to be found out of the business. I use the word "hardship" in that rather technical sense in which the inquiry has been conducted.'

This is not using 'hardship' in a 'rather technical sense' but giving it a wholly artificial meaning. The real hardship is the imposition of discriminatory methods of taxation on a particular section of the community and it proves nothing to compute whether in individual cases the total duty borne exceeds the market worth of such of the assets as have not been unfairly valued. Such a comparison does not even show the extent to which the payment of estate duty *necessarily* involves selling some of the shares concerned – though one supposes this to be the implication – because no one suggests that the widow or other main beneficiary would or should sell the deceased's dwelling-house, furniture, personal effects, etc., in an effort to keep the shares inviolate.

The results of the inquiry are to be published in a White Paper, and it is to be hoped that they will be more illuminating than the ECONOMIC SECRETARY'S remarks foreshadow.

Miscellaneous Points

MR GAITSKELL announced that the Government is working on a scheme to compensate pensioners of the Indian Government for the additional taxation involved by the decision of that Government to tax them.

MR DOUGLAS JAY promised to consult with the Service Ministries about an amendment of the out-of-date scales of uniform allowance given under Rule 10 of Schedule E to officers in the Services. He pointed out, however, that the existence of these scales does not preclude a claim under Rule 9 where the facts warrant it, i.e. when the expense was wholly and necessarily incurred in the performance of the officers' duties.

A CASE FOR ORTHODOX PROFITS

AN INQUIRY INTO THE BUSINESS MEN'S BARGAIN WITH THE COMMUNITY

by H. A. BRISCOE, A.C.A.

By laying out money, the business man provides the income of the rest of the community, which in turn provides him with goods. His bargain is that he will sell these goods for a greater sum and live on the difference. He has no right to alter the terms of this bargain if inflation occurs and must, therefore, accept orthodox profits as true and fair.

THE Institute in their recommendation XII, 'Rising price levels in relation to accounts',[1] confirms the use of orthodox methods of calculating profits and the Millard Tucker Committee adopt those recommendations in their recent report as the only fair method by which all sections of the community may be treated alike. Nevertheless, neither answer the case put up by replacement cost accountants on their chosen ground, and I think they have a case which must be answered on its merits. What is more, I think they have proved their case, which is based on common sense, and it breaks down in the end simply because the underlying principle cannot be applied to all, and as the Tucker Committee say, it is unfair to apply it to one section alone of the community.

For what does it amount to other than that inflation is dishonest, and they propose to correct that dishonesty in the case of the business man because they say that if this is not done the life-blood of British industry will drain away. No doubt they would do the same for the rest of us, but they realize that to correct the wrongs of inflation for every one is to will that there is no inflation, which is absurd.

To investigate the matter we must first define our terms. Orthodox profits may be defined as what is left over after wealth in terms of money is maintained intact, and replacement cost profits what is left over after real wealth is maintained intact. Since money, even in the form of gold, will not support life, and credit money is but a debt owing, surely it is more important to maintain intact the things which money will buy rather than money itself. Does this destroy the case for orthodox profits at one blow?

Replacement Cost Accounting Examined

The business man starts with a sum of money. He carries on a business, and if he never spends more than his orthodox profit he will never dip into the money he started with. If all business men do the same, then the community will maintain its money intact. I mean in the sense that it will have money or equipment and stock which, valued at cost, will equal the money which was originally laid out.

This is better, for it means that the orthodox method of accounting does at least maintain a volume of real wealth equal at cost to original outlay. But this volume of real wealth is constantly consumed and replaced, and if inflation continues, and we do no more than maintain intact the original money outlay, this will buy a progressively smaller volume of real wealth as time passes. Obviously so, for each time it is used to replace the wastage of wealth it buys less. Are we, then, living in a fool's paradise if we are content to maintain our capital in terms of money? If this is what happens in times of inflation, even if we agree that orthodox profits are true money profits, what is the use of that? If inflation is to be always with us, and a stable currency is a thing of the past, must we accept profits calculated by the replacement cost method as the only true profits in a practical sense?

Consider the effect on the country as a whole of adopting replacement cost accounting in times of inflation. We know that the gross national income is equal to the gross national product. Part of this product is consumed, and this is equal to that part of income which is spent. It follows that the remainder of income is saved, and is equal to that part of the gross national product which is not consumed. In other words, it is equal to gross capital formation.

The Effect of charging Depreciation

When we charge depreciation against profits, this is, in effect, a decision to save. As with the rest, this part of saving is represented by a corresponding part of gross capital formation; somewhere in

[1] Reproduced in *The Accountant*, January 15th, 1949.

the country it is represented by new plant, but not necessarily within each business which charges depreciation.

Since the new equipment is no more than equal to the wastage of old equipment due to wear and tear and obsolescence, this saving is rightly considered not to be saving at all, but a legitimate deduction from profit to arrive at net income. But if it is orthodox depreciation, then the sum of money involved will represent a certain volume of old equipment bought at low prices on the one hand, and a smaller volume of new equipment bought at high prices on the other. Hence, the relative volume of gross capital formation involved will not be so large as the volume of wastage of old equipment. A further amount of saving must be allocated, equal at current prices to that further volume of equipment required to make up the difference, and if we use the replacement cost method of calculating profit we are conceding that this too should be considered not to be saving, but a legitimate deduction from profit before arriving at income.

If this is allowed, and a corresponding adjustment is made for stocks, business men will be in that favourable position where, not only can they save enough to finance the effect of inflation on their business, but that saving will be considered to be, not savings, but a legitimate deduction from their profits, and only what remains will be looked upon as income for all purposes, including that of deciding their fair share of the national cake. The final result is that the real wealth of each business and, adding them together, the real wealth of the nation, is preserved intact before arriving at spendable income. This is common sense, and it is also true; then why not accept replacement cost accounting here and now? Before deciding, let us have a glance at what happens in practice in times of inflation.

A Stable Currency versus Full Employment

Inflation is the result of a deliberate choice made by the community for the very good reason that the means of preventing inflation are available, are well known and effective. If we apply them, believing that a stable currency should be our first priority, we know from experience that we shall suffer from booms and slumps, and if times are out of joint, as they were between the wars, the slump may be long continued and unemployment rife. But if we say we have had enough of this, we will be masters of our fate, too long have we suffered ourselves to be the slaves of money, in future we will make full employment our first priority, then, human nature remaining unchanged, inflation is the result.

Well that is bad enough, but we console ourselves that at least we have full employment, all resources are in use, trade is good, orthodox profits are high, investors hurry to buy equities because in spite of the orthodox method of calculating profit they provide the best available hedge against the effect of inflation, and industrialists lay out money freely on equipment and stocks, so that our real wealth increases at an unprecedented rate. What, then, is there to worry about? Why bother to alter the method of calculating profit? Again, before deciding, let us see how the difficulty has, in fact, been overcome up to date, using orthodox methods.

Orthodox profit maintains our original money outlay intact. Admitted that this is not enough to maintain the original volume of the country's real wealth, but is it not true that inflation continues because government does not restrict credit, that extra money is created in sufficient quantities to support an increasing volume of real wealth in spite of high prices? The essential thing is that business men should be willing to adventure their money on equipment and stock, and while inflation persists they are willing and are held back only by controls and delays in delivery. It is during a slump that they are unwilling, and in consequence, it is then, and not in times of inflation, that the country's real wealth declines.

Savings will always finance Inflation

We have the proposition that money is available, since bank credit is unrestricted and is cheap, and sufficient is laid out to maintain and increase our real wealth, but can this go on indefinitely? I see no reason why it should break down. The elements of economics will help us here, for as we noticed above, savings are equal to additions to equipment and stock, hence whatever may be the financial position of the individual, business men as a whole having laid out money and thereby achieved large additions to their real assets, can be assured that savings to finance their outlay are available.

This is in line with our experience in recent years. The capital equipment of this country has been maintained in a healthy condition, and the savings to finance it have been made available where needed. Why, then, the agitation for a new definition of profit? The reason is not far to seek. The business man finds that he has to save merely to maintain the original size of his business, or worse still, he may find that he cannot save

ven to achieve this modest result, and e has a grievance, for most business particularly those who own a small or ized business, are loath to seek outside keep things going.

theless, although he may be disgruntled yone else at the evil results of inflation, ns willing to borrow money if necessary ain and expand his business, for this is, of all, so much more profitable than else he could do. Hence, the mainten- expansion of our real assets is assured enterprise of business men who have nd will go on making, the necessary o achieve this end, although no more thodox profits are conceded by the nity.

Survival Assured

this is the crux of the matter. Orthodox tants must accept as true the theory of ment cost accounting but at the same time can point out that the business world, orthodox methods, in conjunction with the s and the money market, keeps the life- od of British industry in good health in e of inflation. This being so, we are freed m the compulsion of necessity. If we had to opt replacement cost accounting in order to urvive at all, then that method would be fair n the long run although its immediate incidence was unfair. Since this is not the position, we are free to judge whether the new method, on its merits, is fair and just, and likely to help us to achieve our main objective which is to combat inflation.

Saving versus Business Outlay

A small business man may have to save before he can lay out money on a new venture, and this perhaps is ideal, for it relates outlay to saving, but later on, as his business grows, other sources of money become available to him, and so we find that for the country as a whole, the urge to lay out money has little direct connexion with thrift. Now the motive for outlay is enterprise, while the motive for thrift is security, and there is no reason why these two different things should balance, nevertheless their lack of balance cannot disturb the inevitable equality of savings with capital formation, and the clash works itself out in booms and slumps. Thus, if the desire to save represents a sum which is less than outlay on additions to equipment and stocks we have an inflationary pressure, if more, then deflation is the result. This is where the vicious spiral manifests itself, for as inflation persists, saving becomes more and more a mug's game, while the laying out of money to acquire real wealth becomes more and more worth while, and as the two decisions drift further apart, so the inflationary pressure increases. Will replacement cost accounting help or hinder our fight against this evil?

Inflation our Real Concern

If a position arises where business men find they can get a higher price they are but human and take advantage of it. The rest of us feel the pinch and press for more wages, salaries, etc., which, being added to the price, gives us but a fleeting advantage, the tendency being for the business men to be always one jump ahead in the race. If you superimpose replacement cost accounting on this vicious spiral there are two things which can happen. Either you can increase prices to take care of the new item introduced into cost, or you can leave them as they are. In the first case inflation will continue at an accelerated rate; in the second case business men will try to use the new and smaller profits disclosed as a justification for refusing further wage increases, and should they succeed, they will have stabilized their advantage of being one jump ahead. I do not think they would succeed, for the trade unions would be quick to see who were reaping the benefit of the new accounting system. In any case, all businesses are not equally prosperous, some would of necessity increase their prices, so that on the whole I think it must be admitted that, as in the case of any other way by which a larger share of the national cake goes to one section of the community, the rest will not shoulder the sacrifice demanded of them, and further inflation is the result. I do not think that we can expect replacement cost accounting to make any contribution to the fight against inflation, rather the reverse.

Bonds versus Equities

Unfortunately, there is another and worse aspect of the case. To stop inflation we must make saving in general worth while, and particularly small savings whereby everyone will in time own a share in the means of production. Now the business man, having willingly laid out large sums, can be sure that savings to match are available, and he will make use of them by borrowing on mortgage, debentures or short-term notes, or by issuing preference shares, and only in part will he allow those who have saved to share the proprietorship of his business by issuing ordinary shares. Whichever method is used, the reward

of thrift should be the same, and in particular small savings which seek the security of a bond must be protected if our final object is to enjoy the benefits of full employment as well as a stable currency. Therefore, it is not fair to give the equity-holder the benefit of replacement cost accounting while all other ways of investing savings have no protection from the effects of inflation. This is true in the case of the national debt, but where the business man has laid out money, and thereby becomes the owner of real assets which he finances by borrowing savings in exchange for debentures or preference shares, then to protect the real value of his assets in perpetuity, while doing nothing for those whose present self-denial made the deal possible, would be, not just unfair, but positively dishonest. Replacement cost accounting, I submit, cannot exist side by side with the present forms of investment. These different forms have emerged to satisfy varying needs, and together provide an outlet for all savings. If the new accounting is adopted, eventually the only acceptable investment would be in the form of ordinary shares, which would embarrass business men and government alike. I think we must agree that replacement cost accounting, being unfair, hinders the cause of thrift, and would, therefore, add to inflation.

An Honest Currency for the Business Men

It amounts to this, that replacement cost accounting, in a world where everyone is suffering from the dishonesty of inflation, singles out the immediate owners of the means of production, the equity-holders, and gives them protection. They gain the advantage that they are then in a position to spend all their income so calculated, and not encroach upon their real wealth. They already have the advantage inherent in inflation itself, that they can make an income which expands with the rising cost of living, for in the nature of things they are always ahead in the race. Why should they be so specially favoured?

We have already seen that the last advantage is a sufficient incentive to ensure that the real wealth of the community does not decline, survival is assured, necessity is satisfied, it remains to give justice. I submit that the bargain which industrialists have made with the community is fully carried out by the orthodox method of calculating profit. Business men are prepared to lay out money, backing themselves in the open market to gather in more than they lay out. When they start on venture number one they do not undertake that when completed they will enter into venture number two of equa
They do not do this even if we conce
may be different in kind provided it is
volume. Hence replacement cost accou
their desire to give industrialists an hone
finish up by giving them an honest cur
privilege shared by no one else in the con

The Separate Venture Emphasi

This cannot be denied, for all things pa
few businesses last even as long as a
years, and when they cease, the mone
place their assets at the higher prices the
will have been provided and will be avai
any purpose the owner pleases. His origi
ings of, say, £1,000 will now be £3,000 an
time, he will have enjoyed an income
on the whole, will have kept pace with i
better than other people's. This is the in
result thrown up by the fundamental p
on which all business is based – the s
venture. To replace it by the principle th
one entering business for the first time th
undertakes to maintain the original volu
wealth he brings into existence, and any sub
quent additions, in perpetuity, is absurd.

Business men should be the last to deny th
for they spend their lives deciding whether
enter into fresh ventures. Their minds are con
centrated on improving their product, their equipment and their methods, and all the enterprise, initiative, in fact all that attracts them to the job, would be missing if to them business were a single indivisible unit, its future assured by replacing goods as and when they are sold or worn out. Such a conception of business would be the death knell of private enterprise, yet it is of the essence of replacement cost accounting. Not so may we hope to improve our standard of living, which depends, not on maintaining the volume of the means of production, but on providing, generation after generation, enterprising and inventive men who can obtain an increased output from a smaller volume of equipment, and so release resources to add to the variety and abundance of life. But business men understand this well enough, and if they back the new method it is because of its immediate advantage to them, hence when prices break replacement cost accounting will, I think, rapidly lose its adherents.

Justice

In my opinion, it follows that economists must accept the separate venture basis on which free enterprise works, and accept the fact that money laid out on equipment and stock cannot be

specially singled out for protection from the effects of inflation. They must realize that the appearance of rectitude with which they dress up their attempt to give this protection is based on a proposition which industrialists will never accept, namely that they should bind themselves to maintain in perpetuity whatever volume of real wealth they bring into existence.

Since the business man enters into no such undertaking, justice is satisfied by orthodox accounting methods which preserve intact the money he puts into his business. To go further and preserve the purchasing power of this money while all other money declines in value is not fair and would not be justified even if industrialists undertook always to use it to buy new equipment, for it is not good policy for the community to give this advantage to those who are already in business, while doing nothing for new-comers.

The Real Problem Stated

It comes to this, that we must accept as entirely true the claim of replacement cost accountants that orthodox methods do not charge the whole of past real wealth consumed in current production, and we must agree that in these circumstances if the whole of income including orthodox profit were spent, our real wealth would decline.

It follows that the case for orthodox profits rests on the fact that the whole of income is never spent, that the expectation of profit being excellent owing to inflation, outlay on new equipment and stocks runs at a high level and is matched by savings of equal amount, and that while industrialists so willingly add to real wealth, the whole of income cannot be spent, any desire to do so working itself out in more rapid inflation. Hence our problem is shifted from concern that our real wealth is being destroyed to a concern that those who maintain that wealth have a fair deal and that the method adopted to achieve that end will not add to inflation.

The Business Man and the Community

Because of inflation business men do not have a fair deal, but neither does anyone else. The industrialist backs himself to live on the difference between the money he lays out and the money he gathers in. The fact that this results in large accumulations of real wealth is found to be incidental to the main objective which is to make consumption goods. The real wealth is consumed in that process resulting in outlay returning to him and being laid out again for so long as he remains in business. He does not undertake to stay in business, he repeats his ventures only so long as he guesses they will be profitable, and there is no reason why each time his money returns to him it should buy more goods than other people's money. The fact that he may choose to lay it out on new equipment, this being so much more profitable than anything else he can do with it, does not mean that its loss of purchasing power is any more unfair in his case than it is for the rest of the community whose money is similarly debased. A man does not become entitled to privileges because he decides to live on the difference between his buying and selling prices. He does not undertake to remain in the market for the sake of the community, in fact unless he has the wits to make a profit he is better out of the market. His ownership of wealth is merely incidental to his trade; he maintains and increases it because it suits him, and is not entitled to money which does not lose its purchasing power as he follows one adventure with another.

Orthodox Profit alone is True *and* Fair

I submit that orthodox accounting gives him a fair deal and is less likely to add to inflation than the alternative of replacement cost accounting, which benefits one section of the community, and so adds to that competition between sections which is a potent cause of inflation. Certainly orthodox accounting treats all savings alike, irrespective of the way they are invested, and so fosters saving more than the other method which protects equities and leaves the bond-holder, who has sacrificed all for the sake of security, to fend for himself.

Again, while we must give replacement profits pride of place as true in the real sense, nevertheless, orthodox profits are true in their own sphere. In a world where industrialists back themselves to sell goods for more than the money they paid out as income to produce those goods, the difference between their outlay and their selling price is true profit, and the fact that fifty years may elapse and money alter in value before that difference can be finalized does not change the nature of their bargain.

We reach finally this proposition that while replacement profits may be certified as true, only orthodox profits can be certified as both true and fair, and I believe that my fellow accountants will agree that the orthodox method must be retained by them, having regard to the reputation they have built up that they always uphold those things which are just, and true, and fair.

AUTONOMOUS UNITS

by J. P. HOURSTON, B.Com.(Hons.), C.A.

The author suggests that the ideal organization for any company is based on a full application of specialized control in each class of operations of a like character, the likeness being determined by the nature rather than by the name of the operation, provided this control runs straight through from and to the board without the possibility of anyone in any one function having authority to overrule anyone in any other function, and provided also that the final decision between differing views of functional chiefs is taken only at the board table.

IT is perhaps not surprising, in these days when the idea of economic self-sufficiency in national spheres progresses so far towards its logical conclusion of growing grapes in the Grampians, that in the realm of business administration there should be so marked a predilection for 'autonomous units', i.e. product divisions which are administratively self-sufficient. In such units, or product divisions, the aim is to ensure that the one man in charge of the unit is responsible not for a particular function but for all functional decisions which relate to the products of his unit – whether buying, selling, accounting or research, etc. The final outcome of this theory is for the smallest department directly engaged in manufacture to be in charge of its own laboratory – or for every man to be his own doctor. Lest the absurdity of such a conclusion should suggest that plain common sense would immediately require that research, legal and other functions were provided from entirely outside the company, it may be worth observing that 'contracting out' is in fact no more than application of the principle of specialization rather than of the theory of 'autonomous units'. Yet the 'autonomy' theory is widely held – and seems to become only more popular.

It is perhaps worth remembering, therefore, that the competitive capitalist system has developed the most effective and intensified means of producing wealth, in the very widest sense of the term, principally because, under that system – if allowed to operate fully – resources are automatically allocated to the uses in which they have the greatest differential advantage, and that this allocation, in turn, rests primarily on the principle of specialization, or, as it is sometimes called, division of labour.

Advantages of Specialization

Administratively this principle might be defined as that division of operations which ensures that all those of a like character – and only those – are controlled, at the various levels, under one functional chief. Admittedly the words 'a like character' are vague, but it is difficult to be more precise. It is, however, clear that the task of buying bulk raw materials is a very different one from the task of operating a capstan lathe – or indeed from that of buying, say, a 'special order only' piece of technical apparatus. But when the higher levels of administration are reached, although different functions are still plainly seen as different from each other, they progress towards a similarity of character, reaching their chief point of similarity at the very top of the structure when their financial consequences form the ultimate common measure.

Obvious though the advantages of specialization are, it may be worth while to recapitulate the main ones as follows: (*a*) skill is increased and new skill acquired; (*b*) only by specialization can certain techniques economically be employed; (*c*) duplication is avoided; (*d*) unified control and the benefit of a common, best, policy is made possible.

To give only two illustrations, it would not pay to use payroll machines in each department of, say, forty employees; similarly, inventions are often the result of allied ideas in similar fields of investigation being put together with advantage to both, as a result of the stimulus to put them together given by a unified control of such technical development work.

Arguments against Specialization

The chief arguments usually advanced against specialization and for the control of different functions under the head of a product division, or 'autonomous' unit, are that specialization (1) creates conflict with what are called 'operational commanders'; (2) is cumbersome and slow; (3) precludes independent thought and internal competitiveness.

The 'conflict argument' is usually put forward in the form that if you have a number of functional departments, or 'horizontal' units, difficulties will arise where these are crossed at right-angles by 'vertical' or so-called operational units:

people in the same place will be in conflict with each other because some are responsible for, say, production, regarded as a vertical function, and have demands made upon them by others, e.g. accountants, whose responsibilities run at right-angles extending outside the place in question. Therefore to resolve difficulties you appoint one person to supervise all the activities of those within a place; and this argument is often advanced even by those who admit the loss of efficiency resulting from the fact that this one commander cannot possibly be sufficiently expert in a variety of widely differing fields to supervise them effectively.

Conflict of Authority

If, however, the true principle of specialization is rigorously applied, no conflict of authority can possibly arise: for the control of each function will extend vertically to the top of the structure, namely the board, and there will therefore be no one to give decisions as between one function and another except the board. As it is one of the prime tasks of management to co-ordinate specialized functional operations to the most economic achievement of the common purposes for which the concern has to be managed, it surely follows that this task must be executed from the very top.

But if authority is 'delegated' by the supreme authority so that one functional or other chief below the board has power to direct in any way the affairs of another functional activity, the advantages of specialization will to that extent be lost; in fact such delegation of responsibility will merely amount to an avoidance of it; and conflict of authority will inevitably arise.

It is sometimes suggested in this connexion that what are called service departments – usually legal, accounts, research – ought to be horizontal, and operational departments vertical. The departments usually described as operational are production, selling, and (surprisingly) buying. There may be difference in degree but surely there is no difference in principle between one department and another; the aim of all is to contribute to a profitable sale of the company's products. The only approach to a scientific division of authority is according to the essential likeness of the basic nature of the operations.

Second Argument against Specialization

The second argument against specialization – that it creates such a long chain of responsibility from the bottom to the top, and such an extension of control under the one hand that it therefore causes delay and difficulty in operation – although surprisingly widely supported is, probably, not a criticism of the principle of specialization at all, but an admission that the top management have failed to establish policy and delegate responsibility for carrying it out. Those who criticize delays in the large functional organization, also frequently forget that even in the relatively smaller unit, basically all the problems of the relatively larger one appear. That in the smaller unit they may seem to be solved more quickly, is usually due to their being solved without such intelligent thought and without such specialized knowledge, or because they are not solved at all but are disposed of in an arbitrary, ill-informed manner – or even subconsciously.

Real Target for Criticism

As to the benefits of the smaller unit in supposedly permitting a healthier spirit of independent thought and initiative, it is at least possible that in a large unit independence of thought may even be encouraged by the fact that fewer decisions are likely to be arbitrary. The real target for criticism is more likely to be that there is insufficient accessibility and freedom of movement of ideas up and down the line; but while the telephone works, and while the principle of specialization is allowed to operate, without intermediate authority coming in to cut across specialized functions at a lower level than the board, then no impediment to independent thought can arise.

It is interesting to note that what those who demand 'decentralization', as it is sometimes called, are in fact usually advocating unwittingly, is vertical or lateral disintegration. But the basic argument for disintegration is that the operations in question are so dissimilar as to prevent effective supervision under a single control – and to an extent which more than offsets the benefit of assured supplies or markets or mutually complementary supplies or markets.

The benefits of such 'decentralization' thus are found merely to emphasize the merits of the principle of specialization.

The second part of the third argument against functional specialization is that without it you get a degree of competition within the one organization. This argument is only valid where there is no effective competition from outside the company.

To sum up: decentralize; speed up decision; avoid conflict of authority; split off the heterogeneous; delegate – by all means. These are the points that full, functional, specialization achieves.

WEEKLY NOTES

Coal Board Appointments

As was generally expected, Sir Hubert Houldsworth is to succeed Lord Hyndley as chairman of the National Coal Board when the latter retires at the end of this month. Sir Hubert has been chairman of the East Midlands Division since 1946.

The Coal Board has been to some extent reconstituted at the same time. As from the end of the month the full-time members will be (in addition to the two deputy chairmen, Mr W. J. Drummond and Sir Eric Coates) Mr Ebby Edwards, Sir Charles Ellis, Sir Geoffrey Vickers and Sir Andrew Bryan. The part-time members of the Board will be Mr J. H. Hambro, Sir Geoffrey Heyworth, Mr Gavin Martin, Sir Godfrey Mitchell and Alderman Sydney Jones. There are no changes in the part-time membership of the Board.

The new Board takes over at a critical time for the industry. The annual report of the industry, summarized below, has shown that the Board does not underestimate the difficulties which lie ahead. It is to be hoped that the new chairman will bring with him not only the valuable experience of a divisional command held for a number of years, but also some of the success which has attended the workings of that particular section of the British coalfield both under private enterprise and as a nationalized industry.

Coal Board's 1950 Results

The fifth annual report of the National Coal Board was issued recently, covering the year 1950. The financial results, compared with those for 1949, are set out below.

	1950	1949
Operating profits:	£m.	£m.
Collieries	+ 24·2	+ 29·4
Carbonization	+ 1·0	+ ·9
Other activities	+ 1·3	+ ·8
Other income less interest payable ..	— ·2	— ·1
Compensation for loss of office ..	— ·7	— ·8
Additional provision for workmen's compensation	—	— 4·0
Loss on imported coal	— ·3	—
Profits Tax	— 2·5	— 3·5
Interest and interim income.. ..	— 14·5	— 13·2
Surplus	+ 8·3	+ 9·5

As the table shows, the decline in the net surplus over the year from £9·5 million to £8·3 million was due to the drop in operating profits at the collieries. This fall is put down in the report to three causes: first, shortage of man-power which the report admits is now a chronic, basic problem for the industry; second, lower exports owing to the diversion of coal to inland markets where prices are lower than abroad; third, higher costs of stores and materials. Of these three, lower exports must have played an important part, for export prices are still about £1 a ton higher than domestic prices.

The man-power problem is, however, much more serious in the long run and the public's satisfaction in seeing another net surplus from the industry, if a slightly smaller one, will be qualified by the man-power record over 1950. Miners' earnings are going up and so is output per man-shift. But these improvements, even aided for the present by coal from open-cast mining, are barely sufficient to offset the loss of men from the pits. Better output per man-shift last year plus more shifts worked produced an extra 7·7 million tons. Against this has to be put a loss of 6·3 million tons estimated to have been missed by a decline in man-power.

First Fiscal Quarter

The Exchequer returns for the first quarter of the fiscal year show an ordinary revenue surplus of £13·8 million compared with a surplus of £41 million at the same time last year and with a surplus of only a few hundred thousand pounds the year before that.

These figures are arranged on the conventional budget basis and deal only with the surplus or deficit position on ordinary revenue account. On the same basis, the target for the full fiscal year is £199 million. There is clearly a long way to go to the target. On the other hand, the first quarter is not one that provides results usually to the advantage of the Exchequer.

It is nevertheless interesting to note that nearly all the items on the revenue side are running well ahead of schedule if allowance is made for the customary seasonal drop in revenue. For example, the Inland Revenue is expected to receive an extra £77 million. This quarter it took in an extra £39 million. It would seem that the Exchequer's takings, like everything else at a time of generally rising prices, are going up.

Record for Bank Advances

During May the level of bank advances, as recorded by the British Bankers' Association, rose to the record level of £1,895 million. This general increase, however, hides some noticeably different trends among the various classifications. Thus the iron and steel industries, non-ferrous metals and textiles have slowed off in the rate at which they have had recourse to the banks. Large increases have been built over the last few months, however, by the rubber industry, retail houses, food manufacturers, farmers, building contractors and the public utilities. In view of the increased impetus now being imparted to the engineering industry by rearmament orders it is surprising to note that this industry is not making as

large demands on banking accommodation of late as are some of the others mentioned above.

The general trend is, however, clearly upward and it is difficult to foresee any change unless there is a sudden break in the price of international commodities which can in due course be reflected in the value of stocks. For the time being, many large firms are being called upon to finance not only large increases in their bill for raw materials but also higher wage rates. This combination is in many cases putting a severe strain on their working capital and upon the amount of accommodation which they can obtain from the banks under existing arrangements. It may well be that the answer will have to be another round of price increases for industrial goods and higher bank advances. There have been notable falls of late in the prices of certain international commodities, but these so far affect only a limited range of industries and trades.

Price of Bank Accommodation

Following premature and inaccurate statements in the press on the banks' policy regarding higher rates for bank advances, the Committee of the London Clearing Banks have now issued a statement on the matter. 'It is contemplated', they say, 'that in view of present monetary conditions and the ever-increasing running expenses, modest increases of ¼ per cent and ½ per cent should be made in cases where the lending rate is comparatively low, but this is a matter which will be dealt with domestically by each bank with its own customers and not by general application'.

In other words, whatever moves the banks may make with their customers individually, there will be no concerted action to apply a pre-arranged higher tariff of charges for accommodation. There have been talks going on for some time among the clearing banks about the level of bank charges in general in relation to their rising costs and this question of policy on advances fits into this wider subject.

It is indeed certain that any increases that there may be will be related to rising costs and not to broad considerations of monetary policy. It is coincidental that these changes have been mooted at a time when there are indications in the gilt-edged market and elsewhere that a higher level of interest rates has become a *fait accompli*. It would be wrong to say that higher bank charges would, in these circumstances, not be disinflationary. But if they do have that effect it will not be on account of steps taken consciously in that direction by the banks or the monetary authorities.

Allocation of Metals

A priority scheme for essential metals has now been announced by the Government although it is not expected to come into operation until the end of this year. The plan bears all the marks of a compromise arrangement to ensure a minimum amount of metals for essential orders without allowing either the price system or a full-blooded set of controls to fix priorities.

There are to be two schemes. Under the first, a 'Defence Order' symbol ('D.O.') is to be applied to special defence contracts. This will ensure top priority for this kind of work. The metals covered are iron, steel, copper, zinc and their alloys.

Under the second scheme, a preferential treatment symbol 'P.T.' is to be introduced, covering the same metals. This symbol will be used, however, only in a limited number of cases, something like 6 per cent of civilian orders. For the rest, the Government expects to achieve any priorities that may be necessary by issuing general directives to industry and leaving it to firms to carry out its wishes. There is to be no statutory sanction behind these interim schemes – at least such is the intention at present.

Dollar Exports Council

It has been known for some months that the Dollar Exports Board was being wound up and that a new organization would take its place run on not dissimilar lines. The main difference was to be that the new organization would be set up with a view to helping to maintain a sustained effort in dollar exports rather than, as its predecessor had done, to conceive and implement measures to deal with an immediately critical situation.

A Dollar Exports Advisory Council has been set up which has in turn established an executive committee to take action, reserving to itself top policy matters. The chairman of the new council is Sir William Rootes but the chairman of the Dollar Exports Board, Sir Cecil Weir, has accepted an invitation to sit on the new council. The new council will work in close collaboration with the Dollar Sterling Trade Advisory Council of Canada and the E.C.A. Mission to the United Kingdom.

It is to be hoped that the decision to set up a body with a long-term rather than a crisis directive is not interpreted by industry as a sign that dollar exports are in any way less of an urgent need than they have been up to the present.

Colombo Plan Begins

The six years' plan for the development of south and south-east Asia began this week. Over these years it is expected that a sum of about £1,868 million will be spent on development projects in the oriental Dominions, Colonies and Indo-China. The two largest types of scheme to receive financial aid will be transport and agriculture. These are followed by housing, health and fuel and power. There is also provision for technical assistance.

This country is giving assistance under the scheme to the tune of about £300 million – mostly in the form of releases of sterling balances. The United States is, however, the largest donor. The Dominions are also making important contributions, notably Canada and Australia.

REVIEWS

Profits Tax
By N. E. Mustoe, M.A., LL.B., Barrister-at-Law

(Sir Isaac Pitman & Sons Ltd, London. 45*s* net)

Profits tax has now been with us in one form or another for fourteen years and affects many thousands of enterprises, besides being a compulsory subject in many professional examinations. It is in one sense surprising, therefore, that so very few text-books on it have yet appeared.

The subject is, of course, extremely complicated, and writing such a book is a task beset with difficulties and dangers. Mr Mustoe is therefore to be congratulated on this, the longest text-book so far produced on the subject, and it is unfortunate that it should have been so soon followed by a Budget which introduced sweeping changes, although it does in any case look rather to the past than to the future. A substantial part of it is concerned with provisions and decisions which ceased to apply after 1946. It is not always clear which period the author has in mind, the index containing such headings as 'Accountant – whether exempt from the tax', 'Bookmaker – not exempt'.

Some aspects which receive very short treatment in other text-books are fully dealt with by this book; more than thirty pages are devoted, for instance, to an examination of what constitutes a 'trade' or a 'business'. A good deal of space is given to income-tax provisions – not more general principles of computing profits, but the specialized subjects of capital allowances and the 'herd basis' of valuation of stock.

The relevant statutory provisions are reproduced, with some minor exceptions, and are to be found with the appropriate part of the author's text. One of the best things in the book is a long and carefully thought out example showing exactly how computations are made.

In such a long book one would have expected a little more detail on unilateral relief (only fourteen lines) and on bonus issues (one short sentence) but on the whole the ground is well covered.

The Law of Income Tax
by E. M. Konstam, K.C., C.B.E.
(Eleventh Edition: Volumes I and II)

(Stevens & Sons Ltd. Sweet & Maxwell Ltd, London. £8 8*s* net)

The contrast between the eleventh edition, and earlier editions of this well-known work is outwardly very striking. The previously familiar book in a grey-blue jacket is replaced by two brightly coloured loose-leaf volumes devoted, respectively, to text and to the statutes and regulations. The type and layout has also been considerably changed and both volumes are in unusually readable print. The text is now set out in numbered paragraphs, and this has permitted the useful innovation of noting against each section in Vol. II the passage in Vol. I where the subject-matter is discussed.

Apart, however, from such welcome improvements as these, few alterations have been made in the admirable manner of presentation. *Konstam's Income Tax* has always been based on a succint statement of the law as it is to be found in statutory provisions and the cases, with the authority given for almost every sentence. This is, of course, a very valuable thing to accomplish but it is perhaps doubtful whether such a method is suitable for dealing with topics such as double taxation relief, which really requires illustrations and explanations to make it intelligible. Indeed, the twelve-page chapter shared by this important subject and dominion tax relief would seem inadequate for a text-book of this size.

There is a lack of emphasis in practical – as distinct from purely legal – considerations, in the passage dealing with sur-tax on companies. The reviewer has not come across any reference to the Chancellor of the Exchequer's statement of July 22nd, 1948, which confirmed that except where dividends are lowered, or avoidance devices are employed, Section 21 is virtually in abeyance.

In the opinion of the reviewer, Volume II combines legibility with manageability to a degree not achieved by other collections of the taxing statutes and regulations. A minor criticism, however, must be made. In an exaggerated parochialism, efforts have been made to expunge references to profits tax even where they are essential to the understanding of the income-tax position, as, for instance, in the Ninth Schedule of the Finance Act, 1947. Nor has this been well done in all cases – in, for instance, the mutilated reprint of Section 2 of the Finance (No. 2) Act, 1947.

In spite of these criticisms, however, *Konstam* remains a vital part of a practitioner's library.

A Reconstruction of Economics
by Professor Kenneth E. Boulding, Dept. of Economics, University of Michigan

(Chapman & Hall Ltd, London. 36*s* net)

Although it is not its primary intention, Professor Boulding's book develops the theoretical implications of the various items appearing in a balance sheet and it is chiefly this aspect of the work which makes it of interest to accountants. It is definitely a book for the specialist, however, for it assumes a high level of economic knowledge and considerable familiarity with the mathematical expression of economic principles.

An American authority who has other works on economic theory to his credit, Professor Boulding criticizes what in his view are the two main weaknesses of Keynesian economics. Of these one is, in the writer's own words,

'a general failure to distinguish between two very

different processes in economic life, the exchange or payments process on the one hand, by which existing assets, including money, are circulated among various owners, and the processes of production, consumption, income and outgo on the other, by which assets are created, destroyed, and accumulated.'

The other is the failure to develop a theory of distribution comparable to that set forth on employment.

As a follower of Keynes, nevertheless, Professor Boulding attempts in this book to remedy these deficiencies. Whether he does so or not is a matter for the expert to decide; it is his treatment of certain items which accountants will find interesting but it [illegible], however, test their capacity for close and sustained thought.

Stock Exchange Official Year Book, 1951
Volume I
Editor-in-Chief, Sir Hewitt Skinner, Bart.

(Thomas Skinner & Co (Publishers) Ltd, London. Complete edition of two volumes £6 net)

The first volume of the 1951 edition of this invaluable 'hardy perennial' has made its welcome appearance. Containing special chapters on Government, municipal and county authority finance, as well as comprehensive details of Government securities (both home and oversea) and local authority stocks, a feature has also been made this year of information regarding the rights of preference shareholders.

> 'It has been decided [state the publishers] whereever articles of association make definite provision, to indicate whether or not the creation or issue of further shares is deemed to be a modification of the preferential rights.'

This contrasts with the former practice of mentioning only those cases where companies were debarred from making further issues without the consent of shareholders.

The company section of this volume of the year book deals with railways, banks, insurance, breweries, electricity and gas, iron, coal and steel, shipping, oil, rubber and tea, telegraphs and tramways, etc.

Secretarial Practice
(Sixth Edition)
The Manual of the Chartered Institute of Secretaries

(W. Heffer & Sons Ltd, Cambridge. Cloth 21s net; rexine 25s net)

Since its first appearance nearly forty years ago, this manual has been a most reliable work of reference for students and practitioners. The sixth edition, now available, has been completely revised in view of the changes in company legislation brought about by the Companies Act, 1948. Much new material has been added, including chapters on accounts, exchange control, the control of borrowing and capital issues, Board of Trade investigations and superannuation and, symptomatic of the age, the useful appendix of specimen forms has been trebled in size.

Lord Justice Cohen, who was legal editor of the fourth and fifth editions of the Manual, has been succeeded in that capacity by Mr J. W. Brunyate, Bencher of Gray's Inn, assisted by Mr N. P. M. Elles, M.A., Barrister-at-Law, of the Inner Temple.

The Companies Act, 1948
(Second Edition)
by S. W. Magnus, B.A., Barrister-at-Law and Maurice Estrin, A.S.A.A.

(Butterworth & Co (Publishers) Ltd, London. 50s net)

Among the first of the commentaries on the new Companies Act, this useful book has now achieved a second edition. Corrections and clarifications, where necessary, have been made and the various rules and orders affecting companies published since 1948 are now included so as to bring the work up to date. Several new appendices have also been added. These comprise, among other things, the provisions relating to borrowing and raising of capital, surveys of capital and stamp duties and of income-tax and profits tax provisions, a table of penalties and a guide in tabular form to company and secretarial practice. The book's 855 pages (more by 220 than the first edition) are encased in a binding sufficiently strong to stand up to the many calls likely to be made on it as a work of reference of ever-increasing value to accountants and company secretaries.

Money in a Maelstrom
by J. W. Beyen

(Macmillan & Co Ltd, London. 15s net)

A director of the International Bank for Reconstruction and Development and of the International Monetary Fund, the author is well qualified to write on financial theory; in this book he reviews the changes that have occurred in monetary policy from the end of the First World War till recently. Many of the decisions made during this period were based, he holds, on incorrect theoretical assumptions. For example, the desire to restore the pre-1914 relationship of sterling to other currencies lay behind the return to the gold standard in 1925. This action, through its deflationary effect, contributed to the financial difficulties of various countries, culminating in their economic collapse and also in the departure from the gold standard again on the part of Britain. Dr Beyen discusses critically the various attempts made to deal with the situation which emerged. Later chapters deal with the plans for post-war financial reconstruction and outline the history of the Bretton Woods Agreements, with a description of the manner of their implementation up to the time of devaluation in September 1949.

The lesson to be learned from this survey, as summarized in an epilogue, is that the desideratum of exchange stability involves a higher degree of international co-operation than has so far appeared.

FINANCE AND COMMERCE

Peace moves in Korea have been followed in stock markets by a rally in British funds and reaction in metal and commodity shares. Business, however, is still small.

Pressed Steel

We reprint this week the 1950 accounts of the Pressed Steel Company, Ltd, the company which makes pressed steel motor bodies for the automobile industry, the 'Prestcold' refrigerator, etc. In these accounts we have a further variation of the problem of replacing assets under conditions of inflation.

Practice in the past has been to provide for depreciation and obsolescence of plant, machinery and equipment at amounts considered appropriate by the directors having regard to the original cost of the assets and their estimated life. It is now clear, states the board, that if this practice is continued, the initial outlay on plant acquired before the operation of the 1948 Companies Act will be amortised before the end of its effective life. On the other hand, the board points out, the replacement cost of plant and machinery has risen to such an extent that the reserve established this year for this purpose must be largely increased.

The position is dealt with in these accounts by charging £250,000 in profit and loss account for 'amount set aside for increased cost of replacement of plant, machinery and equipment' which is taken to a new capital reserve for that purpose. The reserve is further raised to £1,011,365 by the transfer of the depreciation overprovided for in previous years.

Too Early to Revalue

Major Albert Pam, the chairman of Pressed Steel and a director of one of the leading private banking houses in the City of London, deals further with the matter in his statement with the accounts. His opinion is that it is too early yet to contemplate a revaluation of assets. Neither costs nor financial conditions, he says, are yet sufficiently stable. We neither know how far inflation is going nor the effects of rearmament. It would be inexpedient to go to the trouble and expense of revaluation, he says, while so many fluctuations are still taking place – it might be necessary to undertake it again in a year or two's time because conditions had again changed.

'We are therefore retaining the historical cost of our buildings, plant and machinery, less depreciation,' Major Pam continues, while we tell you that these assets, which have been maintained in an excellent state of repair, are today worth two or three times their book cost and that their replacement cost would be three times or more, if the company were lucky enough to get delivery at all.

Realistic Capital

This view, with the several other statements on asset values given recently in this column and, of course, the leading case for revaluation given by Imperial Chemical Industries, shows the state of flux which exists in current opinion on this subject. The action by I.C.I. is made even stronger by the statement of Mr J. Rogers, the chairman, at the annual meeting, that the directors are prepared to write up the capital as well as the assets.

Application was in fact made to the Capital Issues Committee for a share issue under a 'comprehensive scheme' which would have capitalized a substantial part of the increase in reserves from £17 million to £118 million resulting from the revaluation of assets. Unfortunately, the Treasury rejected the scheme and as usual gave no reason for its action. We say 'unfortunately' because Mr Rogers did not disclose the details of the rejected scheme and we apparently shall not now know how far the I.C.I. directors were prepared to go in the writing up of the capital.

At least, however, we have the board's broad view on the subject. 'We are firmly convinced,' Mr Rogers declared, 'that realistic figures for assets should be matched by realistic figures for capital'.

Yard-stick of Value

For the first time since 1931, the balance sheet of Howard & Bullough (Securities), Ltd is free from qualification regarding the value to be placed on its investment in Textile Machinery Makers, Ltd. The investment consists of £163,875 of 5 per cent preference stock (market value £174,117) and £767,875 ordinary stock (unquoted). The figure of £1,508,775 represents the book value of assets transferred plus the cost of additional shares purchased. The value of this investment, the March 1951 balance sheet states, is considered to be not less than the book value. Last year, it was stated that the value of the ordinary stock could not be assessed but might be less than book value.

The chairman, Mr W. A. Walsh, refers to the omission of the qualification, stating as the reason, that the company has received a dividend of 10 per cent out of earnings in the region of 100 per cent, such earnings now having been shown for two successive years.

This statement is a useful reminder that the public investor uses just the same yard-stick to appraise the value of his invested capital – the extent of the earnings the use of his capital has produced and how much personal income was available from those earnings. These two facts should be incorporated as percentages in company accounts on the lines of the example provided recently in the reprinted accounts of the Caterpillar Tractor Company.

Money Market

Treasury bill applications totalled £340,480,000 on June 29th. The allotment basis was 64 per cent with the average rate 10*s* 2·91*d* per cent. There is no Treasury deposit receipt call this week.

PRESSED STEEL COMPANY LIMITED

Balance Sheet December 31st, 1950

1949 £ Authorized	1949 £ Issued		£ Authorized	£ Issued	£
		Share Capital and Reserves			
		Share Capital:			
		6 per cent Cumulative Preference Shares of £1 each, fully paid	490,000	490,000	
		5 per cent Cumulative Redeemable Second Preference Shares (Series A) of £1 each, fully paid (redeemable at the Company's option or after January 1st, 1965)	1,500,000	828,611	
		Ordinary Stock Units of 5s each	1,657,222	1,657,222	
		Ordinary Shares of 5s each	852,778	—	
£4,500,000	2,975,833		£4,500,000	2,975,833	
		Capital Reserve for Increased cost of replacement of Plant, Machinery and Equipment:			
		Amount appropriated from Profit and Loss Account	250,000		
		Depreciation overprovided in former years (see Directors' report)	761,365	1,011,365	
		Revenue Reserves:			
1,100 000		General Reserve	1,450,000		
753,199		Profit and Loss Account	1,307,752		
1,853,199			2.757,752		
832,500		Reserve for future Income-tax (Schedule D, 1951–52)	1,241,000	3,998,752	
	2,685,699				
	5,661,532				7,985,950
		Current Liabilities, Provisions and Dividends			
1,435,297		Trade Creditors, Accruing Charges, etc. ..		1,824,294	
811,524		Taxation, Profits Tax to date and Income Tax to 1950–51		1,250,380	
100,000		Deferred Repairs and Contingencies		—	
		Dividend declared on Preference Shares for the half year to December 31st, 1950, less tax:			
8,085		6 per cent Cumulative Preference Shares ..	8,085		
		5 per cent Cumulative Redeemable Second Preference Shares (Series A)	11,393		
91,147		Proposed Final Dividend on Ordinary Stock for the year 1950 of 12½ per cent less Income Tax	108,755	128,233	
	2,446,053				3,202,907
	£8,107,585				£11,188,857

Capital Commitments

Outstanding commitments for capital expenditure at December 31st, 1950, are estimated to amount to £650,000

1949 £	1949 £		£	£	£
		Fixed Assets			
	440,000	Patent Rights, at cost as at September 30th, 1927		440,000	
	90,505	Freehold Land, at cost		94,096	
	1,107,304	Freehold Buildings, at cost		1,397,163	
	2,622,500	Plant, Machinery and Equipment, at cost ..		2,962,145	
	4,260,309			4,893,404	
		Less Depreciation and Obsolescence:			
10,725		Freehold Land	10,725		
370,936		Freehold Buildings	406,795		
1,817,470	2,199,131	Plant, Machinery and Equipment	1,382,718	1,800,238	
	2,061,178				3,093,166
		Current Assets			
2,827,126		Stock-in-Trade, Work in Progress, Dies, Jigs, Tools and Maintenance Stores, at cost, or under, less instalments received on account		3,093,457	
2,139,682		Trade Debtors, Deposits and Prepaid Charges ..		2,631,144	
—		Tax Reserve Certificates		1,500,000	
1,079,599	6,046,407	Balances at Banks and Cash on hand		871,090	8,095,691
	£8,107,585				£11,188,857

ALBERT PAM
A. L. SHUTTLEWORTH } *Directors*

PRESSED STEEL COMPANY LIMITED

Profit and Loss Account for the year ended December 31st, 1950

1949 £	1949 £		£	£
	325,496	Depreciation and Obsolescence of Buildings, Machinery and Equipment		367,020
	—	Amount set aside for Increased Cost of Replacement of Plant, Machinery and Equipment		250,000
	9,360	Debenture Interest		—
	2,691	Registration Expenses		4,953
	21	Remuneration of the Trustees for the Debenture-holders ..		—
	1,561	Auditors' Remuneration and Expenses		1,837
		Taxation based on Profits of the year:		
261,500		Profits Tax	399,000	
833,980		Income Tax (including £1,241,000 transferred to Reserve for future Income Tax)	1,246,540	
	1,095,480			1,645,540
	860,399	Balance of Profit for the year, after provision for taxation and after appropriation to Reserve for increased cost of replacement of Plant, Machinery and Equipment		1,023,809
	£2,295,008			£3,293,159

1949 £		£
2,294,828	Balance from Trading Account	3,292,767
180	Transfer Fees	392
£2,295,008		£3,293,159

Note: Directors' Emoluments etc., during the year have been as follows:

1949 £		1950 £
6,750	Fees	6,750
21,152	Other Remuneration (Management)..	22,202
3,000	Pension	3,000
£30,902		£31,952

1949 £	1949 £		£	£
	250,000	Transfer to General Reserve		350,000
16,170		Dividend on 6 per cent Cumulative Preference Shares for the year 1950, less Income Tax	16,170	
—		Dividend on 5 per cent Cumulative Redeemable Second Preference Shares (Series A) for the period November 10th, 1949, to December 31st, 1950, less Income Tax	25,971	
45,574		Interim Dividend for the year 1950 on Ordinary Stock of $7\frac{1}{2}$ per cent less Income Tax	68,360	
91,147		Proposed Final Dividend for the year 1950 on Ordinary Stock of $12\frac{1}{2}$ per cent less Income Tax	108,755	
	152,891			219,256
	21,723	Expenses of Capital Bonus Issue		—
	753,199	Balance carried to Balance Sheet		1,307,752
	£1,177,813			£1,877,008

1949 £		£
197,414	Balance brought forward from last year	753,199
860,399	Balance of Profit brought down	1,023,809
120,000	Contingency Provision of former years no longer required	100,000
£1,177,813		£1,877,008

CURRENT LAW

Detinue: Damages

In *Joseph Ltd v. Ralph Wood & Co Ltd* (*Solicitors' Journal*, May 19th, 1951) the plaintiffs, exporters of woollen goods, contracted to buy from the defendants and to sell to an American firm. The property in the goods had passed to the plaintiffs when the defendants recalled them, and so the plaintiffs sued for detinue and conversion.

It was argued that the plaintiffs could not sue in detinue because the property in the goods had passed to the American firm, but McNair, J., held that there had been no such unconditional appropriation to the firm as would divest the plaintiffs of their right to possession. The true measure of damages was the value of the goods at the date of judgment, less so much of the purchase price as had already been repaid. Moreover, the plaintiffs were entitled to an indemnity against any possible claim by the American firm.

Company Procedure

In *Danish Mercantile Co Ltd and Others v. Beaumont* (*Solicitors' Journal*, May 12th, 1951) the plaintiffs were a company owned equally by S. and H., the only two directors. In 1949 S. was appointed sole managing director with power to conduct the affairs of the company as he in his sole discretion should think fit. On disputes arising S. caused proceedings to be brought, *inter alia*, in the name of the company. These proceedings were justified by S. on the basis of the agreement appointing him managing director but they were not authorized by a general meeting or by the board.

Later a motion was presented asking that the name of the company be struck out on the ground that the action had been brought without the company's authority. For the plaintiffs it was alleged that the proceedings had been adopted by the liquidator who had since been appointed. Roxburgh, J., refused the motion.

The Court of Appeal dismissed the appeal. Jenkins, L.J., did not accept the argument of the defendants that where an action was brought without the authority of the purported plaintiff, it was therefore a nullity, for that would be to introduce an entirely new doctrine into the law of principal and agent. Where a solicitor brought proceedings in the name of a company without making sure that he had the requisite authority, he did so at his peril. But if the purported plaintiff adopted and ratified the proceedings, then, in accordance with the ordinary law of principal and agent and the ordinary doctrine of ratification, the defect was cured.

Banking Account

In *Jones v. Maynard* (*Solicitors' Journal*, April 28th, 1951) the Court was called upon to settle a dispute as to the ownership of the balance on a banking account. The defendant, while on active service, authorized his bank to accept the signature of his wife to his account. Both paid moneys into the account, but the larger part was paid in by the husband. In 1948 the marriage was dissolved and the wife claimed half the balance and half the investments which had been made in the husband's sole name by moneys drawn from the account by him.

Vaisey, J., held that the wife's claim was justified. Pointing out that the events which happened had never been in the contemplation of the parties and that there was no authority exactly in point, he found as a fact that the parties had intended to make a pool of their resources and not to divide them up according to the respective contributions. He accordingly held that the husband was a trustee for the wife of half the balance and half the investments.

Equitable Assignment

M. and his brothers and sister were beneficially interested in a house forming part of the estate of M.'s father and in which M. and his wife were living. M. and his wife carried out certain alterations which the wife paid for. Subsequently M. and his brothers and sister wrote to Mrs M. stating that 'in consideration of your carrying out certain alterations and improvements to [the house] at present occupied by you, we the beneficiaries under the will of [the father] hereby agree that the executors, . . . shall repay to you from the said estate when distributed the sum of £488 in settlement of the amount spent on such improvements'. In fact, the work had already been carried out.

When the tenant for life died, Mrs M. claimed the amount, but the Court of Appeal held that there had been no assignment. For a voluntary equitable assignment to be valid, it must be complete and perfect in all respects. Here the consideration was past and the instrument was a *nudum pactum*. While an equitable assignment could be valid without consideration, this document did not constitute such an instrument for, contemplating future action by Mrs M. to the satisfaction of the signatories, it did not make her title complete. (*Re McArdle, decd.*) (*Law Journal*, April 27th, 1951.)

Contract: Anticipatory Breach

The Accountant for October 7th, 1950, gave the decision of the Lord Chief Justice in favour of the corporation in *William Cory and Son, Ltd v. City of London Corporation*. The appeal of the firm has now been dismissed by the Court of Appeal (*Law Times*, June 8th, 1951).

The firm contracted with the Corporation for the removal of refuse, undertaking to use lighters fitted with temporary 'coamings'. While the contract was running the Corporation passed a bye-law requiring lighters to be permanently fitted with coamings. The

firm contended that this amounted to an anticipatory breach, but Lord Goddard, C.J. found otherwise. The Court of Appeal held that while it was an implied term that neither party to the contract would do anything to prevent the other party from performing it, to regard the passing of the bye-law as in this category would place an unwarranted hindrance on the free exercise by the Corporation of its statutory powers.

Breach of Contract: Devaluation of Pound

In *Mehmet Dogan Bey v. G. G. Abdeni and Co Ltd* (*Law Times*, June 8th, 1951) McNair, J., refused to disturb the findings of the arbitrator in favour of the defendants charterers of a ship belonging to the plaintiffs. It was a condition of the charter that freight should be paid in advance to the owner's agents in the United Kingdom. The freight became payable on September 6th, 1949, but was not paid until September 14th, 1949, by which date the pound had been devalued, so that the owner suffered a loss of £3,953. He claimed this sum from the charterers and the matter was referred to arbitration.

The arbitrator found (*a*) that the loss was not reasonably foreseeable by either party as a likely consequence of the failure to pay the freight on the due date; (*b*) the charterers would not reasonably have assumed that the loss would result from the late payment; and (*c*) that the loss did not naturally and directly flow from the delay. He accordingly found for the charterers.

McNair, J., decided that the arbitrator's findings were of fact, against which there was no appeal. In regard to the remoteness of damages, it was the duty of the Judge to direct the jury on the meaning of 'natural and direct' and 'reasonably foreseeable' consequences and the duty of the jury to decide whether there had been damage which ought to be regarded as falling within that category. Here the arbitrator was the tribunal of fact himself.

Liability of Agent

In *Navarro v. Moregrand, Ltd and Kushner* (*Law Times*, June 1st, 1951) the Court of Appeal found for the plaintiff in an action against the defendants for the return of a premium obtained from him by an agent of the defendants in respect of the letting of a flat, contrary to the Landlord and Tenant (Rent Control) Act, 1949, Section 2 (5). It was held that a principal is liable for all wrong done by his agent in the course of his employment even though he acts outside his actual or ostensible authority and the wrongful act is for his own benefit. The tenant had no notice of the fact that the agent was exceeding his authority.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Speed in Production of Monthly Accounts

SIR, – The monthly accounts and statement of budget expenditure of the association of which I am secretary are available by the 15th of the following month.

Although it is not a trading concern and the number of employees is only a few hundred, the accounts department is very small. It would seem that an increase in accounting work would merely imply an increase in staff, with some mechanization, so that, with the right system, the time factor would remain constant.

Yours faithfully,
Surbiton, Surrey. P. T. SUTTON, A.C.I.S.

SIR, – During the past twenty years we have issued monthly accounts to cover ten individual departments with an average employee roll of 350, and a present turnover, including purchase tax, of about £80,000 per month.

We aim at presenting them by the 14th of the month, but I must confess that usually it is more like the 18th.

Yours faithfully,
STANLEY BLAKE REECE,
Director
Liverpool, 1. J. BLAKE & CO LTD.

SIR, – As you have invited letters on the subject, it might be well to suggest that more information be given than appeared in the letter from Mr G. F. Brown, in your issue of June 23rd. It seems clear that the data on which accounts can be produced very largely depends upon the degree of precision that is required in the accounts. For example, some of the questions that one would like to ask are:

1. Were certified stock reports received from all stockists, home and foreign?
2. Had these been checked and discrepancies dealt with and finally disposed of?
3. Had the work in progress been physically checked, and differences between the inventory and the books satisfactorily investigated and explained?
4. Were statements obtained from all sundry creditors?

Upon the answers to these and similar questions depends the value which can be placed upon the statement that accounts are available so many days after the end of the month or year in question.

Again, a question for consideration by each individual management is the amount of expenditure on clerical labour that can be justified in producing the results. Given the basic data, the amount of time necessary to produce routine results can be made almost strictly proportional to the labour force.

This point has been demonstrated by the football pools, who could produce their results much more economically if their customers were prepared to wait for them.

In the absence of the relevant information one can only presume that Mr Brown's accounts are a model of precision, offer congratulations on the speed with which results are made available, and ask *The Accountant* to be good enough to provide him with ample space in which to give us fuller details as to how his efficiency is attained.

Yours faithfully,
STEPHEN RUSSELL, F.C.W.A.
London, N21.

SIR, – In reply to Mr Brown's letter on the above subject in your issue of June 23rd, we would mention that we prepare and complete monthly accounts of four operating divisions by the 7th and 8th of each month, and not later than the 15th we prepare and route to our management similar data showing the outlook for the current and the ensuing three months.

I read into the last sentence of Mr Brown's letter ('We might then find that we are not so late with these as the general opinion holds') the inference that the preparation of monthly accounts – promptly or otherwise – is a general practice in this country.

I doubt very much whether this is so and feel that even though you get a large number of replies saying that individual organizations prepare monthly accounts promptly, such a point will not in any way have been proved.

Yours faithfully,
W. F. EDWARDS,
Director & Treasurer,
London, SW1. GENERAL MOTORS LTD.

SIR, – I am glad that this subject has been raised by Mr G. F. Brown in your issue of June 23rd, and compliment him on producing the accounts of a company with 3,000 employees by the fifteenth day of the following month. Although the company I serve has only 800 employees, my best effort so far is to equal that of Mr Brown and I fear that management will continue to tolerate, rather than appreciate, our efforts until this time-lag is considerably reduced.

Wages are normally paid one week in arrear, and although a lapse of up to ten days may occur before the analysed figures are available, a reasonable estimate for monthly profit and loss account purposes can usually be made at an earlier date. The main delay, however, is caused by slowness on the part of suppliers in rendering invoices for the raw materials and services we have purchased, and we find it necessary to keep our books open until the sixth day of the following month; even then many invoices are received later, but these are carried forward. Thus by the time purchase and nominal ledgers have been posted, trial balance prepared and the lost days of a week-end allowed for, the fifteenth day soon arrives.

It appears therefore that the presentation of my accounts can only be speeded up by carrying forward more suppliers' invoices, so causing additional work for our purchase payments staff who pride themselves on the promptness of their monthly settlements. I know that many companies, both large and small, present their accounts very much earlier than I am able and so I too shall be interested to read other comments on this subject.

Yours faithfully,
Sheffield, 8. W. A. BREWER, A.C.W.A.

SIR, – I was interested in the letter from Mr G. F. Brown, published in *The Accountant* of June 23rd.

I agree that there is nothing exceptional about completing monthly accounts by the middle of the following month. In my company with over 1,800 employees, the preliminary trading figures prepared on a departmental basis are usually ready by the fourteenth day and the detailed accounts are available on the sixteenth day.

To prepare monthly accounts promptly it is of course necessary to attend to certain details of organization in the accounts office. A programme or time-table should be drawn up so that the work of each section or group can be properly co-ordinated, and so that all concerned can know what is expected of them. Work likely to be delayed can be reported and special steps taken to bring it up to date.

The problems of each section in keeping up to the time-table will have to be studied and some changes in routine may be necessary. On the purchases section, for example, prompt closing of the books is not possible if they are kept open awaiting invoices. The purchase section must be put in possession of information, which will enable them to make correct reserves, in respect of all goods and services for which invoices have not been received and passed within a day or two of the end of the month.

When the accounts office is properly organized to produce monthly accounts promptly there is no reason why annual accounts should not be produced promptly also, allowing a further few days for a special examination of such items as building and repair contracts uncompleted, and for a thorough check of the work of each section of the accounts department.

The dates suggested for the completion of monthly and annual accounts are considered to be reasonable ones for most businesses. By taking on more staff than could be fully occupied during the month, or by making a number of estimates the accounts could be produced several days earlier but such a procedure is not to be recommended. Businesses of a complex nature, for example those engaged mainly in the construction of large public works, must remain an exception to the general rule and can only produce accounts promptly by making certain broad estimates.

Yours faithfully,
Birmingham, 4. H. W. HOLT, A.C.A.

The Accountant's Loyalties

SIR, – In the report, otherwise admirably summarized, of my paper at the annual conference of the Association of Certified and Corporate Accountants held in Buxton and published in your issue of June 30th, there is one sentence which should, I think, be slightly amended.

The suggestion that the accountant's responsibility may prevent him from pursuing a course of action to which the client objects would, I think, scarcely be emphatic enough. My actual words were:

> 'It is difficult to conceive of any circumstances in which it (our responsibility) can permit us to do something which he (the client) objects to having done.'

As the accountant is not bound to comply with the client's wishes if he believes them to conflict with his professional responsibility, so the client is not bound to submit to the accountant's dictation as to what is to be done in any particular circumstances. If the latter cannot continue if the client persists in his negative attitude, he must withdraw. He cannot act unilaterally against the client's prohibition. If he does, he may well be subject to a claim for damages, I should imagine.

Yours sincerely,
Leicester. C. A. NEWPORT.

Singular Psychology

SIR, – In your leading article of June 30th, 1951, referring to the first public session of the Royal Commission, you state that all the schemes (for the linking of income-tax with 'social security' payments and contributions) 'would worsen the relative position of the single person, especially in the low income group, but the recent Budget indicates that this is in any case the government policy'.

A young bachelor is normally in the low income group and he usually remains a bachelor until the time when he can afford the heavy expense of starting a home and thereafter maintaining at least one person in addition to himself. Is it now the intention to postpone the arrival of that time until the once-young bachelor is too old to have any further interest in the matter?

And what of the bachelor who has worked himself into the higher income group and has in the process managed to save the minimum which he feels is necessary to entitle him to lead a woman to the altar? He will beware of marrying a woman with income of her own, unless the proverbially blinding quality of love (or, more probably, ignorance of the amoral nature of taxation legislation) prevents him from knowing the monetary penalty which he and his bride must suffer. As there are but few eligible women without income, he may not unreasonably choose to remain single.

The time may not be far distant when a bachelor will be regarded as an artful dodger if he has reached the age of, say, 30. He may perhaps be charged, for each year of assessment, a penalty equal to three times the amount of any additional tax he would have paid had he married a woman having an income of such sum as the Commissioner may think reasonable.

After this year's Finance Bill anything is possible and young bachelors may well consider whether to move the control of their activities outside the United Kingdom before the Treasury, or some working spinsters' association, persuades Parliament to use manacles.

For reasons which will be evident to you it is undesirable that I should allow my name to be published, but I can declare my interest by signing myself –

Yours tragicomically,
BACHELOR.

Our Weekly Problem

SIR, – I was very sorry to see such a sad lapse in Mr L. U. Sidate's genius as was evidenced in his answer to the problem of June 9th, 'Farming Technique'.

My solution is as follows:

20 cows' consumption in 3 weeks = 60 cow/weeks
21 cows' consumption in 2 weeks = 42 cow/weeks
Therefore: Growth in 1 week = 18 cow/weeks

Therefore 2 fields will maintain 36 cows.

Either Mr Sidate's 6 cows will be grossly overfed during the summer, or there will be an ample supply of hay to last them all winter as well!

Yours, etc.,
Brighton, Sussex. J. R. ROSE.

[We agree, of course, with Mr Rose's solution. – Editor.]

The Auditor in Public Corporations

SIR, – The article on the functions of the auditor in the control of public corporations, which appeared in your issue of May 12th last, was of great interest to some of us in a grant-aided body with peculiar governmental relationships. We are in a position to observe the relative merits of governmental and commercial audit, since both types are applied to our accounts, the choice between them being determined mainly by geographical considerations.

Though we are glad to avail ourselves of the services of practising accountants in various parts of the world, our specialized requirements are the cause of some embarrassment and necessitate elaborate instructions. On the other hand, in attempting to secure improvement in the effectiveness of financial controls generally we are only too conscious of the deficiencies of the usual budget and cash accounting techniques as applied to trading accounts and inventory control.

Your contributor is, of course, concerned with a very much wider range of accounting requirements in the case of large-scale corporations. Was it modesty that deterred him from proposing a solution on the lines of development of a suitably trained internal audit branch within the Ministries when he spoke of a 'form of audit carried on in close and continuous

contact with the concern'? This would not appear to infringe upon the proper sphere of the Department of Exchequer and Audit, who are mainly responsible for briefing the Public Accounts Committee in their examinations, since that Department would naturally have full access to the results of the internal audit.

After all, is it not the case that most monopolistic institutions depend largely upon their own internal organization for securing the necessary standards of efficiency, since these are not invariably achieved or disclosed by the ordinary tests of profitability as gauged by the published profit and loss accounts?

Yours faithfully,
W. H. ROBERTS,
Director of Audit,
THE BRITISH COUNCIL.

London, W1.

Relief Loss on Furnished Lettings

SIR – In reply to your correspondent 'E. H. S.' whose inquiry under the above heading appeared in your issue of June 9th, 1951, I would refer to the recent case of *Littman v. Barron* before Mr Justice Wynn-Parry.

It was held that an excess arising under Section 15 (1) of the Finance Act, 1940, was not a profit to which Section 27 of the Finance Act, 1927, related and that, therefore, deficiencies of rent could not be set against the excesses.

It is noted that the above case is at present down for hearing in the Court of Appeal.

Yours faithfully,
BERNARD D. WINTERS

Enfield, Middx.

Census of Distribution: Queries on Completed Forms

SIR, – In connexion with the recent census of distribution forms, it is noticed that queries are being raised in a number of cases as to the correctness or otherwise of some of the entries, particularly in connexion with wages. It appears that the wages and salaries paid for one isolated week of the year, namely week ended June 24th, 1950, was required, as well as the total of annual wage and salary bill and a query is apparently raised if the latter does not calculate to approximately fifty-two times the former.

The fact that the wages for one isolated week of the year might greatly differ in ratio to the total for the whole year seems to be completely beyond the comprehension of the office of the census of distribution.

It should be noted that many of these forms are completed for the traders concerned by their accountants (another one of those burdens, which accountants have to take in their stride) and consequently when the trader receives a letter implying some doubt as to the accuracy of the figures supplied, the faith of such client in his accountant is somewhat disturbed, and not always completely reinstated by subsequent explanation by his accountant that the office of officialdom themselves may not be having the correct perspective of the matter. Other cases have arisen when in a letter to the client, doubt is expressed as to the ratio of salaries to turnover, and again the client is asked either to confirm or amend his figures.

It is further noticed that these letters are printed for various types of queries and thereby implying that large numbers of these are being sent out. In any case, if the form is originally sent in on behalf of a client by his accountant, surely any reply or query thereon should be addressed to the accountant.

If, therefore, it is the experience of other accountants to have to deal with a number of these cases, should it not officially be pointed out to the census authorities that while the already overworked accountant still cheerfully or otherwise takes on these additional burdens of work in the ever-increasing 'paper' world in which we live, he does begin to draw the line when the possibility arises of the relationship with his client being strained thereby.

Yours faithfully,
ACCOUNTANTS.

Integral Book-keeping: a Problem

SIR, – The following procedure exists between the accounts and the cost departments of a firm:

(1) The bought day book is analysed into production, maintenance, tools, etc.
(2) All invoices entered in the production column are passed to the cost department where they are analysed in the goods inward book against the receipt of the items.
(3) Returns to supplier go through the reverse procedure.
(4) All items in the goods inward book are debited to stock cards.
(5) Issues of 'production' stores are made via requisitions which are credited to the stock cards, valued and summarized into: (*a*) production expenses, (*b*) maintenance or overheads.

A difference of opinion now arises in the method of dealing with the following:

(1) A contractor enters the firm's premises and repairs the lift. His invoice is duly entered under 'maintenance' in the day book.
(2) Later, it is discovered that the contractor used materials (production) from stock via a requisition which was marked 'maintenance'. A credit is therefore demanded, and received from the contractor.

The problem is, where in the day book columns should the credit be entered. The cost department says it is obviously a reduction of the original charge of maintenance. The accounts department, however, insists that the credit reduces virtually the purchases of 'production' materials. Can your readers see why it is impossible for the cost department to accept this procedure?

Enfield, Middx. H. R. CLOTHIER.

NOTES AND NOTICES

Personal

MR J. S MUIR, A.C A., announces that, with effect from July 1st, 1951, he has taken into partnership Mr HECTOR CHARLES LAUX, A.C.A., and Mr ERIC VICTOR SANDERS, D.F C., A.C.A., both of whom have been in his office for many years and served their articles with him. The practice will continue under the style of WATSON COLLIN & CO. at Transport House, Smith Square, London, SW1.

MESSRS CATTELL & CHATER, of Bank Chambers, High Street, Kettering, announce that, following the death of their senior partner, Mr THOMAS FAREY CHATER, F.C.A., A.S.A.A., the practices at Kettering, Rushden and Corby will be continued by the surviving partners, Mr. G. R. DREVER, A.S.A.A., and Mr A. W. MORRIS, F.C.C.S., both of whom were associated with Mr CHATER for some years before his death. The name of the firm will remain unchanged.

MESSRS PRICE WATERHOUSE & CO, Chartered Accountants, of 3 Frederick's Place, Old Jewry, London, EC2, announce that they have admitted to partnership Mr C. H. NICHOLSON, who has been a member of their London staff since 1936.

MESSRS BOWMAN, BULLEY, YOUNG & CO, Accountants and Auditors, announce that they have removed from 32 Great Ormond Street, Holborn, WC1, to 11 Queen Street, Bank, EC4, as from Monday, June 25th, 1951 Their telephone number is now City 4623.

Professional Notes

Mr S. H. Gillett, M.C., F.C.A., was promoted to the rank of Commander in the Order of St John of Jerusalem on May 24th, 1951.

At their last meeting, the Lancashire County Finance Committee unanimously appointed Mr Norman Dodson, A.S.A.A., A.I.M.T.A., to be County Treasurer in succession to the late Mr Alan Beal who died suddenly in April. The commencing salary for the post is £3,000 per annum rising to £3,500.

Councillor Alec Ling, J.P., F.C.A., Principal of Oswald Ling & Son, of Derby and Ashby de la Zouch, has been appointed a local director of The Provincial Insurance Company Ltd, of London and Kendal.

Mr A. E. Tunley, A.C.A., Chief Accountant of Harris Lebus Ltd, manufacturers of furniture, has been given a seat on the board on taking up the position of Financial Controller of the company.

Obituary

THOMAS FAREY CHATER, F.C.A., A.S.A.A.

We have learned with regret of the death, at the early age of 48, of Mr Thomas Farey Chater, F.C.A., A.S.A.A., senior partner in the firm of Cattell & Chater, of Kettering, Rushden and Corby.

Mr Chater was admitted an Associate of the Institute in 1928, became a member of the Society in 1934 and was elected a Fellow of the Institute in 1936. He had been in practice in Kettering for over twenty years and played a prominent part in the basic industry of the district – the manufacture of boots and shoes – as secretary of a number of councils and associations connected with this trade.

Among the directorships held by Mr Chater were those of Stimpson Leathers Ltd, East Midlands Allied Press Ltd, and the Northampton Board of The Eagle Star Insurance Co Ltd. He was a past master of the St Crispin Lodge of Freemasons and held degrees in various other lodges.

At the time of his death Mr Chater was president of the Kettering Rotary Club and was Treasurer of the Kettering Cricket and Rugby Football Clubs.

The Institute's Autumnal Meeting, 1951

Plans for the twentieth autumnal meeting of The Institute of Chartered Accountants, to be held in Torquay from October 11th–13th next, are well advanced. The programme includes a paper on 'The valuation of holdings in private limited companies', by Mr T. A. Hamilton Baynes, M.A., F.C.A., with special reference to estate duty problems, and by Mr W. G. Campbell, B.A., F.C.A., from the more general aspect; another paper is entitled 'The effects of taxation on industry and the individual', by Mr E. G. Turner, M.C., F.C.A.

On June 29th members of the Bristol and West of England Society of Chartered Accountants and of the Exeter branch, who are members of the Conference Committee and the Conference sub-committees, together with their ladies, and Mr Alan S. MacIver, M.C. (*Secretary of the Institute*), and Mr Derek du Pré (*Editor of 'The Accountant'*), were received by Mr S. W. Cornwell, F.C.A., President of the Society, and Mrs Cornwell, at an informal social meeting held at the Grand Spa Hotel, Bristol.

Manchester Society of Chartered Accountants

PROPOSED BOLTON BRANCH

With a view to starting a branch in Bolton of the Manchester Society of Chartered Accountants, a luncheon was held at the Swan Hotel, Bolton, on Friday, June 22nd, and was attended by some forty members of the Institute.

After the meeting had been addressed by Mr Mark Wheatley Jones, B.COM., F.C.A., President of the Society, and other members of the committee, a resolution was carried unanimously that it was desirable that a branch of the Manchester Society of Chartered Accountants should be formed in Bolton, and the following *ad hoc* committee was elected to make the necessary arrangements: Mr Kevan Wm. Horton, F.C.A., *Chairman*; Messrs P. Clarke, A.C.A.; H. Daniels, A.C.A.; E. M. Haslam, A.C.A.; J. H. McLaren, A.C.A.; K. Pilling, A.C.A.

In Parliament

INCOME TAX: UNSETTLED CLAIMS

Mr HOUGHTON asked the Chancellor of the Exchequer how many claims for the repayment of income-tax were received by the Inland Revenue department more than three months ago and are still unsettled; what proportion those unsettled cases are of the total number of repayment claims received; and how many of the unsettled cases are for sums exceeding £1,000.

Mr GAITSKELL: At June 4th, 1951, the latest date for which figures are available, there were 8,939 unsettled claims which had been in hand for more than three months; this represents one-third of 1 per cent of a year's intake of claims. I cannot say how many of the unsettled claims involved more than £1,000.

Hansard, June 26th, 1951. Written Answers, Col. 116.

MARRIED WOMEN: EARNED INCOME

Mr BURKE asked the Chancellor of the Exchequer (1) how the principle of assessing a married woman's earned income separately from her husband's earnings is affected by his regulations in respect of the fiscal year in which she ceases to be employed; and whether the concession is then withdrawn with the effect that her earnings for that year are assessed with her husband's earnings; (2) if he is aware that a married woman who ceases to be employed during the fiscal year and applies for a rebate of income-tax payments has her earned income for that year assessed jointly with her husband's income thereby losing the benefit of separate assessment; and if he will take steps to remedy this hardship; (3) why a married woman who leaves employment in the course of the fiscal year is not entitled to an adjustment of her income-tax payments unless she makes a claim for adjustment before the end of the fiscal year in which she has ceased to be employed.

Mr GAITSKELL: The normal rule is that the income of a married woman living with her husband is treated as income of the husband for income-tax purposes. But either husband or wife, by making a claim before July 6th in the year of assessment, may have the two incomes assessed separately. The allowances to which both parties are entitled are then divided between them in proportion to their respective incomes. A claim to separate assessment continues to have effect until revoked, and is not affected by the nature of the wife's income or if she is in employment, by her ceasing to be employed. I am not clear exactly what type of case my hon. friend has in mind, but if he will send me particulars I shall be glad to look into the matter.

Hansard, June 26th, 1951. Written Answers, Col. 118.

INCOME TAX, RULE 9

Wing Commander HULBERT asked the Minister of Defence if he will bring the provisions of Income Tax, Rule 9, to the notice of all regular and reserve officers in the Royal Navy, Army and Royal Air Force.

Mr SHINWELL: I am looking into the hon. and gallant member's suggestion and will write to him when I have completed my inquiries.

Brigadier HEAD: Is the right hon. gentleman aware that, if what the Chancellor of the Exchequer said recently was correct, the Treasury undoubtedly owe the Services very large sums of money owing to ignorance of this rule?

Mr SHINWELL: I understand that the service departments are discussing this very complicated matter with the Treasury.

Hansard, June 27th, 1951. Oral Answers, Col. 1383.

The Chartered Accountant Students' Society of London

SOUTHEND-ON-SEA BRANCH

At the third annual general meeting of the Southend-on-Sea Branch of the Chartered Accountant Students' Society of London, held on June 12th last, the committee reported that during the year the activities of the branch had included several lectures on accountancy subjects, others of more general commercial interest, a visit to a local factory to observe mechanized accounting methods in action, and an accountancy quiz at Chelmsford against the local branch of the Society.

The report of the committee and the accounts were adopted, and during a discussion on the activities for the coming year, several members expressed the wish that the branch should cater more for the Intermediate student, and should endeavour to obtain lectures on subjects which were not dealt with in the text-books.

The officers elected for the ensuing year were:

Chairman: Mr M. A. Wren.
Hon. Secretary: Mr G. W. Abbott.
Hon. Treasurer: Mr G. R. Wright.
Members of the committee: Messrs W. J. Heddon and P. F. Jordan.

Australian Accountant Seeks Correspondent

A Sydney member of The Institute of Chartered Accountants in Australia has written to us expressing his desire to correspond, on general matters, with a member of The Institute of Chartered Accountants in England and Wales, who is interested in Australia.

Our querist, who is 34 years of age, would like, in particular, to exchange views on accounting and

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taxation topics – being a member of the N.S.W. Division of the Australian Chartered Accountants' Research Society.

Any member of the Institute who cares to accept this invitation is requested to write to the Editor, *The Accountant*, 4 Drapers' Gardens, Throgmorton Avenue, London, EC2.

Double Taxation: Jersey

The Finance Committee of Jersey has approved, subject to the agreement of the States of Jersey, the terms of a double taxation agreement between the United Kingdom and Jersey. Legislation will be necessary in Jersey to enable the arrangement to be put into effect. In the United Kingdom the arrangement requires the approval of Parliament. The agreement is being published as a draft Order in Council.

Double Taxation: Guernsey

The Guernsey income-tax authority has approved, subject to the agreement of the States of Guernsey, the terms of a double taxation agreement between the United Kingdom and Guernsey. Legislation will be necessary in Guernsey to enable the arrangement to be put into effect. In the United Kingdom the arrangement requires the approval of Parliament. The agreement is being published as a draft Order in Council.

Double Taxation: Norway

The double taxation agreement with Norway, which was signed on May 2nd, was published on July 4th as a schedule to a draft Order in Council.

Recent Publications

SHIPPING LAW by Lord Chorley, M.A., and O. C. GILES, LL.M. Second Edition. xxvi + 364 pp., 5½ × 8½. 30s net. Sir Isaac Pitman & Sons Ltd, London.

PRINCIPLES AND PRACTICE OF COMMERCE, by James Stephenson, M.A. Fourth Edition by John H. Stephenson, B.A., B.SC. xvi + 896 pp., 8½ × 5½. 25s net. Sir Isaac Pitman & Sons Ltd, London.

JORDAN'S INCOME TAX GUIDE, 1951–52, compiled by Charles W. Chivers. 48 pp. 7×5. 2s net. Jordan & Sons Ltd, London.

BUDGETARY CONTROL, by H. P. Court, F.C.W.A., A.I.I.A. viii+282 pp. 10×7½. 50s net. Sweet & Maxwell Ltd, London.

Our Contemporaries

THE JOURNAL OF ACCOUNTANCY. (New York.) (June.) 'New Audit Program Based on Quarterly Transactions Takes Pressure from Year-End Peak', by Leonard F. Beckers, C.P.A.

THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (April.)

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (June.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 8th, 1876

To the Editor of 'The Accountant'

Anonymous Correspondence

SIR,

Mr Herman Lescher 'wants to know' why your correspondents do not attach their real names, instead of pseudonyms, to their communications. I can only reply for myself, and have no objection to give my reasons. They may not be good enough for him, but that I cannot help.

In the first place, I have neither the fierce moral courage of Mr Lescher, nor his magnificent confidence. I am a modest kind of man and not inclined to receive the adulations which might be poured upon me for my effusions, if my name were to appear. Still less do I wish my arguments to be eclipsed by the brightness which would radiate from my real name were it appended to my communications. Neither do I want some lord, or perhaps a dignitary of the Church, to apply to me in the most pressing manner to become his private or corresponding secretary; and further – and this most of all – if I want an advertisement, I prefer to pay for it in the ordinary way. So far as my letters are concerned, I wish them to stand for just what they are intrinsically worth, and not to be overshadowed by the brilliancy of my signature. Again, sir, I should not like *The Accountant* to be of such extreme value for the week only in which my resplendent and euphonious name might blazon, and I trust I have a greater respect for the much esteemed editor, than to allow him to be driven nearly mad between the conflicting issues of consigning my notes to the waste-paper basket, and dimming the lustre of his periodical by the absence of my name from his columns. For these reasons I shall continue to sign

TWENTY YEARS.

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THE FINANCE BILL, 1951: THE DEBATE CONCLUDED – V

Proposals to assist Mining Companies

A SHORT but important debate took place on two clauses aimed at giving relief to mining companies. One clause proposed the repeal of subsections (3)–(5) of Section 22 of the Finance Act, 1949, which, it will be remembered, permits a depletion allowance in respect of capital expenditure on the acquisition of overseas mineral resources. The effect of the repeal would be to base the allowance on the full amount expended by the company, and not to limit it to the amount expended by the first United Kingdom purchaser. The ATTORNEY-GENERAL explained that loss would fall on the Treasury unless there were some means of assessing the profit made on sales by intermediate owners and he pointed out that the MILLARD TUCKER Committee had recognized this in their recommendations. He considered that the clause raised general questions which ought to be examined by the Royal Commission. The clause was withdrawn.

The second clause provided for the amendment of Section 30 (1) of the Income Tax Act, 1945, by extending the allowance to expenditure in discovering and testing deposits, or winning access thereto, on any mining tenures owned, or held under option or under an authority to prospect. The clause would have had the ancillary effect of overriding S.R. & O. 947 of 1947 which has placed a narrow construction on the Act. At present, exploration outside a 'mineral field' or 'oil province' which the company is operating cannot be charged either directly or by way of an annual allowance – though 90 per cent of expenditure on oil exploration is said to be abortive – and a heavy premium is therefore placed on prospecting. Needless to say, most foreign mining companies are at an advantage in this respect.

The debate was striking because the arguments for the clause and the obvious importance of the topic clearly shook the ATTORNEY-GENERAL out of a 'wait for the Commission' attitude, though he would make no definite promise of action. The clause also produced the unusual spectacle of MR ANEURIN BEVAN supporting the Opposition. He said that in his view, where an important social purpose was to be accomplished, either the State should do it or the State should make it possible for private enterprise to do it. What the State should not do was merely to surround private enterprise with inhibitions; the Treasury's attitude in this matter was a characteristic example of the unwisdom of allowing it to have too much influence over economic planning. He also complained that our mining resources in Great Britain were not being properly explored by modern methods.

The suspension of initial allowances

The Opposition made further attacks on the clause providing for the suspension of the initial allowance and divided the House twice. In moving that the allowance should be reduced from 40 per cent to 20 per cent rather than being suspended, MR R. A. BUTLER said that when SIR STAFFORD CRIPPS doubled it, he did so to meet the greatly increased cost of replacing fixed assets, and because of the inadequacy of the ordinary depreciation allowance. These allowances take no account of the fall in the value of money, and with replacement costs three times what they were, penal taxation, and physical controls on investment, industry's need of capital was far greater than the Government realized.

The Economic Secretary to the Treasury, MR JOHN EDWARDS, reiterated the Government's argument that a substantial switch of plant and machinery to defence production was essential, and that in any event the suspension of the initial allowances was but a limited hindrance to expansion and development, and affected marginal cases only.

An amendment to exempt agricultural machinery from the clause on the ground that increased agricultural production is part of the defence effort also failed.

However, the Government themselves introduced an amendment to exclude from the clause cases where a contract for the construction of a ship or engines for a ship had been entered into not later than April 10th, 1951, i.e. Budget day.

Profits tax

Amendments have been made to the clause linking for profits tax purposes the capitalization of profits and the reduction of share capital. These amendments exclude from the scope of the clause redeemable preference shares issued for full consideration paid in cash, and, secondly, loan capital or redeemable preference shares issued as part of the purchase consideration by a body which is buying any business or property.

Clause 32 (formerly clause 28) which enables adjustments to be made to counter the effect of transactions designed to avoid profits tax, has also been amended in pursuance of an undertaking given in Committee. The Commissioners must specify the transactions giving rise to the direction and the adjustments as respects liability to profits tax which they consider appropriate. It is now provided that a direction cannot be given merely because some distribution, or a larger distribution, of profits could have been made; or (except in the case of director-controlled companies) because debentures have been issued for a full cash consideration; or by reason of any transaction which has received Treasury consent under clause 36 (the former clause 32), provided that consent was specially given to that particular transaction, that it was given in advance, and that all material facts were disclosed to the Treasury at the time. Under a new subsection it will be possible for any body to approach the Commissioners to discover in advance whether or not a particular transaction will involve a direction. The Commissioners must be satisfied that it is entered into for bona fide commercial reasons. If they think a direction ought not to be given, they must notify the applicant accordingly, and will thereafter be unable to make a direction provided that full and accurate disclosure of all material facts was made to them in the first place. They will, however, still retain the power to make a direction with respect to transactions which include that transaction.

The clause bringing public utilities within the scope of profits tax at 10 per cent has been amended to permit the carry forward of losses incurred since January 1st, 1947, when the tax substantially received its present form.

Miscellaneous new clauses and amendments

The Report Stage of the Bill had concluded with an amendment of clause 36 by the Chancellor of the Exchequer, MR GAITSKELL. This makes it clear that in no circumstances will a mere transfer of assets by a body corporate not resulting in a substantial change in the character of the company be treated as an unlawful transfer of part of the trade or business.

A new clause extends a wife's special earned income relief under Section 18 (2), Finance Act, 1920, to payments by way of a retirement pension under the National Insurance Act, being a pension payable to the wife by virtue of her own income. A consequential amendment has been made to the proviso to Section 27, Finance Act, 1946.

MR DOUGLAS JAY gave two reasons for it. First, married women receiving pensions paid by

private employers under private superannuation schemes have by long Inland Revenue practice been allowed to treat them as deferred pay where the recipients contributed towards the pensions, and it seemed anomalous that this concession should be refused to a woman who had contributed all her working life to the State retirement pension. Second, it was possible for a married woman to retire and for her income to fall to 30*s* a week (as it will be) and for her to have to pay increased tax on the lower income. The Government would not accept the suggestion that the concession should extend to children's allowances as well as to retirement pensions.

Clause 27 which gives the Revenue power to obtain information as to interest amounting to more than £15 per annum which is paid without deduction of tax has been the subject of considerable controversy. On the Report Stage, the Opposition's arguments related solely to the Post Office Savings Bank and were directed to the apparent conflict between the clause and the obligation of secrecy imposed by Section 4 of the Post Office Savings Bank Act, 1861, and also to the general merits of the proposal. The ATTORNEY-GENERAL finally agreed to an amendment removing doubts regarding the former matter.

Other amendments to this clause were that (i) persons furnishing lists of recipients of untaxed interest cannot be required to do so for any year ending more than three years before the date of service of the notice requiring the list, and (ii) where the recipient of such interest notifies the bank or other payer that the person beneficially entitled to it was not normally resident in the United Kingdom, the interest need not be included in the return.

The Government announced that, following the discussions which had taken place, the various sections of the film industry had agreed to new arrangements in respect of entertainments duty which would operate for three years from August 5th next.

A schedule to the Act sets out the revised rates of duty. The general effect is that in the case of seats not costing more than 2*s* the duty is either reduced or left unaltered; above that point it is increased by amounts ranging from 1*d* to 5*d*. Under the EADY scheme the increases would be passed on in the form of higher prices for the more expensive seats.

Taking last year's arrangements under the EADY plan with these proposals, the industry would obtain a total of £8½ million more than it was getting before. Of this, the producers would get £3½ million and the exhibitors, who had satisfied the Government that their claims for rising costs were stronger than at first thought, about £5 million before deduction of film hire. It was hoped that the three years' security offered to the producers would enable them to get on a paying basis without further Government assistance. The smaller cinemas received special assistance last year when it was arranged that there should be exemption from the levy scheme in any week where the takings were less than £125.

Another interesting suggestion was to amend Section 21 of the Finance Act, 1936, by providing income arising under a settlement which was wholly and exclusively used for the payment of fees and the purchase of text-books for the full-time instruction of a child of the settler should not be treated as income of the parent. This was rejected by MR DOUGLAS JAY on the grounds that the £10 million it would cost could be far better spent, whether on education or dependants generally, than by giving relief to the sur-tax and income-tax paying class, and in particular to those of them who had happened to make use of the particular legal device of a settlement.

The Opposition suggested that light hydrocarbon oils used in manufacture should be exempt from duty, as is virtually the case in many other countries, or at least that they should be exempt from this year's increase. The Government rejected the suggestion on the grounds of cost and administrative difficulties but have given the Treasury power to extend the present drawback on the export of articles containing light oil as an actual ingredient to cases where it has been 'used as a material, solvent, preservative or finish'.

Readers of the Bill should not be unduly elated when they see that a clause entitled 'Reduction of Match Duties' is to come into force on August 1st. MR JAY explained that the phrase is used in a somewhat Gilbertian sense, namely, that if a new price order authorizes the reduction of the number of matches per box the tax per match will now remain the same instead of going up.

MANAGEMENT-CONTROL ACCOUNTING

STANDARD COSTS AND BUDGETS

by HARRY DUGDALE, A.A.C.C.A., A.C.W.A., A.M.I.I.A.

Management-control accounting: a precision tool in the hands of management – Connexion between standard costs and budgets – Analysis as a feature of expense control – Quantitative basis in the formulation of specific budgets – Fixed, variable and semi-variable overhead – Vital relationship between fixed overhead and output – Product selection based on the equation, fixed overhead-cum-profit – Considerations in setting flexible budgets – Inter-relationship of various budgets – Responsibility-budgeting.

FROM the early 1930s to the outbreak of the Second World War, the techniques of standard costing and budgetary control had been gradually but surely carving their niche in the British industrial structure. Long established in the U.S.A., these techniques, on being introduced to British managements about 1933, did not at first command a wide audience. This is readily understandable: new ways are apt to be viewed with a conservatism tinged by an element of mistrust which arises, of course, from the impact of new techniques on minds not yet fully cultivated to appreciate them. Caution is thus engendered during an initial period of trial.

But just as 'new boys' at school gradually become 'old boys', so now have the techniques of standard costing and budgetary control firmly established themselves as precision tools of management in the British industrial field.

Relationship Between Standard Costs and Budgets

One famous authority on these techniques has said 'Standards are budgets; and budgets are standards'. This implies – and correctly – that a single purpose runs through their apparent duality. In practice, we set standards for, *inter alia*, labour, materials, machine-speeds, and production losses. Budgets, on the other hand, are established for overhead charges. In formulating such budgets, a yard-stick – or standard – must be used wherever possible. Conversely, when setting standards, the interwoven budgetary factor cannot be eliminated. For example, in a machine-operation necessitating a team of workers, the setting of a precise standard *ipso facto* demands that a *budget* shall postulate the required labour force.

There are, of course, many variations in the extent to which these dual techniques are used. If the incidence of overhead in the cost structure is high, then we cannot have effective standard costing unless budgetary control is used. Thus standard costing limited to considerations of labour and material costs is, in many cases, of restricted value. Conversely, however, it is possible for budgetary control to be employed in circumstances where no use is made of standard costing. Even in such a case it is imperative to have standards with which to set certain of the general works overhead budgets. In the main, therefore, the dual techniques must operate together if their true effectiveness is to be obtained.

Nature and Incidence of Overhead Charges

A basic *dictum* to be observed in expense-control is that of analysis. Only by knowing the nature and incidence of the overhead charges of an industrial company can one attempt to set control-budgets therefor. In many industries today, overhead charges account for 70–80 per cent of the total product-cost. This is almost a complete reversal of the circumstances appertaining three or four decades ago.

Hence, modern management makes the utmost use of budgetary control in order to ensure that extensive overheads are not necessarily *excessive*, but correlated to production and sales.

Implication of Analysis of Overheads

We may now consider the implications of overheads' analysis. It is found in most industrial companies that there are four main avenues down which must go the expenditure on overhead charges. They are:

(1) general works overhead (also known as factory overhead);
(2) administration overhead;
(3) selling overhead; and
(4) distribution overhead.

Prior to the formulation of individual budgets, therefore, expense-headings should be segregated into these four groups. Subsequently, analyses of past expenditure should be made – not to act as the basis of the budgets now being formed,

for this might easily perpetuate overspending – but to ensure that a sufficiently detailed classification of accounts is made available.

Budget-formulation then proceeds to make further use of analysis and, where possible, of scientific method. In each of the four groups of overhead it is essential so to demarcate the constituent expenses that there emerges a sub-analysis showing (*a*) fixed overhead; (*b*) variable overhead; and (*c*) semi-variable overhead. This sub-analysis is, as we shall see, germane to the whole principle of the flexible budget. It assists, moreover, in clearing the way for a formulation of certain budgets on a quantitative basis. Use is thus made of the scientific method of measurement. Thus, in the sphere of general works overhead, the budgets for steam-raising, electricity generating, and process water, should be built from an appropriate base of measurement. Hence, knowing the postulated annual production, and the nature of a specific factory expense, it is possible to set an equitable budget for that expense.

Ancillary Benefits

Let us first consider the necessity for modern management to have a fore-knowledge of the incidence of overheads incurred in producing and marketing the output of a factory.

It has been stated above that overheads are capable of being analysed into the three classes of fixed, variable, and semi-variable. This analysis must be made if any effective system of standard costing and budgetary control is to operate. The *raison d'être* is not hard to find: it is expense-control. Fixed overheads are those which tend to remain relatively unchanged in their annual amount over a fairly wide range of productive capacity. This is not to say that their annual amount is irrevocably unalterable. Changes in capacity-utilization (from, say, day-shift operation to a double-shift plan) may, and sometimes do, have the effect of increasing the total annual fixed overheads.

A Double-edged Sword

It is a practical proposition, however, that in a factory working single-shift as a normal course of events, the fixed overheads will remain relatively stable. That fact is a double-edged sword! Given the opportunity to increase the *tempo* of production, without increasing working hours, the incremented output will have a direct effect on the fixed charges' element of the product price structure. In other words, total overhead cost, per unit of product, will be reduced. Conversely, where output falls, the resultant effect is an increase in overheads cost per unit of product.

Fixed overheads thus representing a solid block of expenses, which have to be met regardless of the variations in output, what benefit is it to a management to know the annual incidence of this class of overheads? There are several reasons why this knowledge should be obtained. Thus, where the annual amount of fixed charges constitutes a major portion of total annual operating and marketing expense, it is an imperative necessity that output should be sustained and, where possible, increased. If output falls in such a case, the effect on final net profit will be drastic; but if the converse happens and output is increased (and, let it be added, sold) there will be a marked increase in profit.

Low Incidence of Fixed Overheads

On the other hand, the company with a low incidence of fixed overheads in its overall annual expenditures is more stable. It is not so susceptible to profit-variation, for the simple reason that alterations in output do not have the sharp effect on fixed charges per unit of product. In such a case, the main emphasis of expense control will be directed to considerations of variable expense (e.g. raw material used in production; packing material; production loss; and scrap), with a view to effecting manufacturing and marketing economies in this class of expense.

In each set of circumstances, however, the facts are there to set the management thinking. High fixed overheads should direct attention both to stepping-up output and marketing the increased production. Increased production may demand considerations of layout, production methods, incentive schemes of remuneration, market research and careful formulation of selling prices.

Low fixed overheads should not cause the management to be unduly complacent – a matter to be discussed here is 'why are the fixed overheads relatively so small?' Is a large contributory factor the continued use of old plant, on which the annual depreciation write-off is now comparatively small? If this is so and if, in addition, it is known that any increase in production could be readily sold, there may be definite grounds for the introduction of the latest form of plant. The new plant will have its concomitant in the shape of an increased annual depreciation charge. But the extra output which will be obtained (compared with old plant) may actually result in a decrease in total product cost.

Price Fixing and Product Selection

Fixed overheads' incidence in the product is also a potent factor in price fixing and in product selection. Product A. may show a clear profit of 1*s* per unit and product B. a profit of 6*d*. But if product B. recovers 9*d* per unit in fixed overheads, while product A. recovers 2*d* only – due to the production cycle followed by product B. making greater use of the plant and services giving rise to the fixed charges – then product B. is the more profitable one to 'push'.

This knowledge assists the sales management. In the sphere of competitive price fixing, data as to the fixed overheads' element in product costs is vital. Without this knowledge, reductions might be made in selling prices which result in selling the product at a loss. If the fixed charges incidence is known, however, then the competitive price is built up from the basis of variable cost, plus a contribution towards the fixed charges. Put differently, this is a situation where avoidable costs (i.e. variable charges) are recovered *in toto*, while some contribution is obtained, in addition, towards the unavoidable fixed charges.

Budgetary Control and Flexible Budgets

Budgetary control should be effected by means of flexible budgets. The purpose of these is to show the applicable allowance for any percentage of activity ranging from, say, 40 per cent to 140 per cent of normal capacity. In setting a flexible budget for each class of overhead expense, several considerations arise. In the case of fixed overheads, it is prudent to give serious thought to the amount of fixed overhead, e.g. indirect wages, that would be incurred at the minimum level of activity.

From that point, a 'step' graph may be constructed, showing the permitted additions at various levels of activity. Some fixed overheads, however, have an unvarying total amount whatever the activity, e.g. depreciation.

Variable expenses should, theoretically, vary directly with changes in output. The point to watch here is that the basic level of any variable expense has been formulated from accurate data, based on studies made in the fields of production and marketing; for example, in budgeting for ancillary production material, it may be essential to build into the budget an allowance for production loss. Studies should be made to establish what is a normal loss in these circumstances.

In the sphere of semi-variable expense, it is necessary to have an appreciation of the constituent fixed and variable elements embodied therein. The variable element is then built on the basic fixed charge to provide the flexible budget.

Through the medium of flexible budgets, properly set, a management is provided with data of the total amount of expenditure allowable for a defined output. The object is to keep production and marketing costs at a predetermined percentage of income. That way lies planned profit, and its successful realization.

Inter-relationship of Budgets

Budgetary control focusses attention on the market for a company's products. A sales budget must be drawn up, on a realistic basis, showing expected sales in product categories and geographical territories. From that sales budget, the production budget is formulated; and the latter, in its turn, influences the capital expenditure budget, inasmuch as envisaged capital expenditure should be related to a production plan, in order that the outlay can be truly represented as the 'live' use of monetary resources. The sales, production and capital expenditure budgets are then considered collectively in the setting of a cash budget, the purpose of the latter being to ensure adequate finance wherewith to achieve the combined plans of production, selling, and plant extension or modernization.

'Responsibility Budgeting'

The principle of 'responsibility budgeting' now commands full acceptance – and rightly so. Based on the recognition that many costs have a human agent, the expenditures should be grouped against relevant departmental executives. These executives must sit on budget committees and assist in formulating the amounts of expense which henceforth, through the medium of the departmental or cost-centre budgets, they will be expected to meet at given levels of activity. Only by 'responsibility budgeting' can the true interest of departmental executives be enjoined to the task of expense control.

It can therefore be easily seen that the use of standard costing and budgetary control inevitably brings to the surface numerous inter-related factors, the proper understanding of which – calling as it does for a projection of the management's mind into the fields of predetermination, correlation and analysis – cannot fail to assist in the obtaining of economic production and marketing and in the securing of a planned profit. At the same time the processes of production will be smoothed; in many cases effective bases will be laid for labour remuneration; and dynamic use made of the capital employed in the business.

NORTH AMERICAN COMMENTARY–XXV

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
Professor of Accounting, McGill University, Montreal

Journal of Accountancy, New York, March

Industrial and Commercial Accounting

THE need for distinctive training of students in industrial or commercial accounting is being widely discussed in North America. The editorial refers to Professor Leo Schmidt of the University of Michigan as advocating an examination for those pursuing a career in industrial or commercial accounting, giving successful candidates the right to a title – presumably appropriate letters. It is pointed out that thousands of certified public accountants in the United States have had little or no public accounting experience. Many argue that the college degree which usually precedes the C.P.A. qualification is enough for these students, whose promotion will depend on their employers. The editorial asks for comments of readers on this 'provocative' idea.

The Independent Auditor and Defalcations

Stressing the cheaper protection given by internal control and surety bonds, the editorial regrets the persistent belief in the U.S. that the independent audit should necessarily disclose any defalcations. Detailed checking has, except in very small businesses, become the function of the internal accounting staff, the main aim of the independent audit being to express an opinion on representations of the corporate financial position.

The S.E.C. and Accounting Principles

The chairman of the Securities and Exchange Commission, Mr Harry A. McDonald, claims that in the U.S. the S.E.C. and the accounting profession have worked side by side in the evolution of accounting practices, with 'constant and intimate contact'. He repudiates any suggestion that the commission has attempted to regulate the accounting profession. The vital interest of the S.E.C. is, he says, 'the development of objective and uniform accounting'. The statutes provide that the S.E.C. must prescribe forms for companies required to register with it, and the commission's objective has been to give satisfactory information to the investor.

Organization in Professional Accounting Firms

The results of an investigation of practice in public accounting firms are reported by Mr Louis H. Pilié, C.P.A. One of the larger firms has divided its staff into teams of four or five, each led by a supervisor, leaving an independent 'pool' of several seniors and assistants not on any team. Inventories of estimated man-hours needed and available for the next three months are carefully planned ahead. Another firm makes a weekly engagement progress report arriving in detail at actual variances in hours taken as compared with estimates, thus making the staff 'time conscious'. Some firms use dictating machines and one provides a dictaphone by which one member of the staff can take inventory by means of a portable microphone, the record being sent to the head office of the machine company for transcription. Another firm has a photostat machine which saves typing and collating time and errors in transcription. One firm has pre-typed models of standard report paragraphs, each pre-numbered. Thus, under 'accounts receivable', instructions to the typist may be to 'copy paragraphs 1, 6 and 8 after which type the following. . . .'

Lawyers and Continuing Professional Education

Mr John E. Mulder, director of the committee on Continuing Legal Education, explains the scheme now being carried out by this special committee of the American Law Institute in collaboration with the American Bar Association. Nation-wide training is being given by lecture courses, with special literature produced and published by the committee. Six handbooks or monographs for study are being produced each year and sold to members. One publication is 'Basic accounting for lawyers'. It is hoped that the project will ultimately be self-supporting. The scheme is put forward as one which might be emulated by the accounting profession.

Lawyers and Accountants: Income Tax Practice

The House of Delegates of the American Bar Association has approved the Statement of Prin-

ciples submitted on behalf of the national conference of lawyers and certified public accountants. The council of the American Institute of Accountants has still to approve it. The editorial believes this is the first time that the highest authorities of the organized Bar have recognized that C.P.A.s are members of a sister profession with standards comparable to those of the legal profession. It is also the first recognition that C.P.A.s are entitled to some participation in all phases of tax practice.

Depreciation for Income Tax in Canada

Explaining the adoption of diminishing balance depreciation in Canada, Mr Edward H. Robertson, C.P.A., tells of the success of the accounting profession in securing amendment of the original provisions, by which companies would have been virtually compelled to adopt in their accounts the same depreciation method as is now required for income-tax purposes. The Canadian taxpayer is now allowed to manipulate his depreciation deduction from year to year to minimize his rates of tax. Thus he may make no claim in a year of loss, or only enough to reduce profits to the $10,000 margin below which the rate of tax is 15 per cent, as compared with 38 per cent above this point. The position is contrasted with the U.S. requirement that full depreciation provision must be made each year for income-tax purposes.

The New York Certified Public Accountant, New York, March

C.P.A.'s Services to Business

Reviewing the services now given to business by C.P.A.s, Mr Stephen Chan, C.P.A., lists (1) business advice, (2) tax advice, (3) system revision to give the utmost in efficiency in particular circumstances, (4) advice as to insurance coverage, (5) monthly audit and report to smaller firms, where there may be closer relationship between accountant and client, with full personal discussion of the report.

The Accountant's Function in Credit Granting

Messrs Kermit J. Berylson, C.P.A., and Joseph S. Herbert, C.P.A., examine the accountant's role as business counsellor and his function of linking his client with the resources of the credit and financial world. It is urged that the accountant must co-operate closely with credit men, giving information as a basis for making the credit decision but in no sense himself acting as a credit man.

The Accounting Review, Menasha, Wisconsin, April

Cost Accounting and Cost Book-keeping

Professor Herbert F. Taggart, of the University of Michigan, makes a plea that, though this may be considered heresy, cost records need not always be tied in with the general accounts and that estimates, approximations and round numbers would often serve the cost accountant's purpose. He argues that the cost records themselves are of little use to management and that

> 'probably accountants have indulged the public too long with statements whose perfect arithmetical balance has created a false sense of reliability and accuracy'.

A method of reporting along 'new and untried lines' will be necessary

> 'to avoid letting the entanglements of cost book-keeping interfere with the realities of cost reporting and interpretation'.

He suggests that by the year 2,000, we may be giving a statement of economic condition instead of a balance sheet.

Reserves and Retained Income

A committee of the American Accounting Association (comprising university teachers of accounting) now publishes Supplementary Statement Number 1 recommending complete elimination of the term 'reserve' from published financial statements. All appropriations of retained income should, if displayed on the balance sheet, be included in the proprietary section and summarized in one total (unless formally capitalized), but should preferably appear only as a footnote. It is argued that the use of 'reserve' for proprietary equity is quite contrary to the normal dictionary meaning of 'funds kept on hand to meet demands' (Webster). Regarding the North American practice of including hire purchase contracts on the balance sheet in two items (1) accounts receivable (instalment sales), Dr., and (2) unrealized gross profit on instalment sales, Cr., it is recommended that

> 'when obligations have been performed and related costs can be objectively measured, revenues should not be deferred on published financial statements even though it is permissible for income-tax'.

There was no material disagreement within the committee though some of its recommendations differ materially from established practice. The whole is evidence of the strong trend towards disclosure and statement clarification. Further statements are under consideration.

The Canadian Chartered Accountant, Toronto, April

The Canadian Institute of Chartered Accountants

This is the title now officially given by Act to the former Dominion Association of Chartered Accountants. Under its new title the D.A.C.A. will hold its golden jubilee in 1952.

Income Tax Teaching in Canada

The comparative neglect of the study of income-tax in commerce courses at Canadian universities is discussed by Professor K. F. Byrd of McGill University. He traces it partly to the haphazard growth of the original Act in thirty-one years until, in 1948, a completely new Act eliminated most of the matters formerly left vaguely to ministerial discretion. The field is now open to thoughtful study.

The Unbalanced Sheet

Mr James R. Neff, C.A., attacks the typical modern balance sheet for its unbalanced condition. He urges that management cannot work on the basis simply that total assets less total liabilities represent owners' equity, for it needs particulars as to money available to be spent, money set aside for special purposes, money spent and locked up in buildings and plant and recoverable only by depreciation methods or sale, etc. His solution is the division of the balance sheet into self-balancing funds, e.g. current funds (assets and liabilities), specific purpose funds, depreciable expenditure funds containing the fixed assets other than land, and a land fund. Mr Neff's is a campaign to lift the 'poor balance sheet' from the subservient position into which it has tended to fall in recent years as 'simply a listing of residual balances after the profit and loss movement has taken place'. He sets out to be provocative and he succeeds. Any such challenge to traditional accounting is to be welcomed as a means of analysing its efficiency in giving guidance to management in its control of company finances.

WEEKLY NOTES

Double Taxation

Double taxation agreements under Section 51 of the Finance (No. 2) Act, 1945, continue to be made. The drafts of three new agreements have recently been published; with Norway, Jersey, and Guernsey respectively. In the case of Norway, the agreement is almost identical with that made with Denmark (S.I. 1950, No. 1,195), slight differences being due to Norway's different tax structure. The agreement with Norway is to come into force as from 1950–51, as against 1949–50 for Denmark.

The agreements with Jersey and Guernsey (which includes any island where Guernsey income-tax is in force) are to commence as from 1951–52. They cover British sur-tax as from 1950–51. The two agreements are almost identical. A person or company resident in one territory but not in the other will not be taxed by that other territory on the profits of an enterprise there unless it is carried on through a permanent establishment, and even then not if it consists of shipping or air transport. If the profits are taxed by the country of residence on the remittance basis only, only the amount remitted will qualify for this exemption. The mere purchase of goods in one country will not attract tax there. On the other hand, there is provision to counteract the manipulation by one enterprise of the profit made by another enterprise in the same control. An individual resident in one country and not the other, who performs services in that other territory, is not taxed on the remuneration there, provided he is not there for more than six months, performs the services on behalf of a resident of his country of residence, and pays tax on the remuneration to his country of residence. This exemption does not apply however to entertainers, such as actors, musicians and athletes. Government salaries and pensions are taxable only by the country paying them, unless the recipient is ordinarily resident in the other country, other than for the purposes of his employment, or is employed in connexion with a trading or profit-earning enterprise.

As regards doubly-taxed income, the country of residence will allow a credit for the tax paid to the other country. This does not apply however to dividends or debenture interest paid by companies although United Kingdom unilateral relief will continue to apply to these.

The Royal Commission

If the integration of income-tax with social security which has been proposed to the Royal Commission on the Taxation of Profits and Income is not accepted by it, the Commission will be asked to consider a less drastic simplification consisting of the amalgamation of the employer's and the employee's share of the national insurance contributions now paid, the aggregate amount being paid by the former and claimed as a business expense. The suggestion envisages the abandonment of separate cards for each individual employee together with all the stamping which such cards involve. Of course, if the suggestion were adopted by the Government, there would be an in-

crease in net wages unless the employers were allowed to adjust these. The suggestion is contained in a memorandum submitted to the Commission by Mr M. G. Spriggs, M.A., A.C.A., Chief of the Taxation Section, Vickers Ltd, who gave evidence to the Millard Tucker Committee on the Taxation of Profit. The memorandum consists mainly of a succinct and forceful argument in favour of reforms on the general lines set out in our report of the Commission's first meeting, the suggestion outlined above being an alternative.

Valves Productivity Report

The team representing the steel, iron and non-ferrous valve industry which went to the United States last year under the auspices of the Anglo-American Council on Productivity was impressed by the close personal contact which exists between senior management and employees in the United States. It instances, in its report just published,[1] the president of one company employing 450 workmen who toured his whole factory three times a day and made a point of speaking to a number of different operatives each time. The team found that the American employee works no harder than does his British counterpart, but he works more consistently in that there is a minimum of lost time, a readiness to take advantage of every labour-saving device and an eagerness to operate more than one machine at a time.

Three of the more important recommendations made by the team were: study the advantage of specialization, standardization and simplification; foster the technical education of promising young staff to the greatest possible extent; and organize the duties of senior management so as to enable it to maintain close personal contact with its men.

[1] Obtainable price 3*s* 6*d* post free, from the British Valve Manufacturers' Association, 32 Victoria Street, London, SW1 and the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1.

Higher Commercial Bill Rates

One further upward adjustment in the structure of interest rates was made last week. Three months' fine bank bills have been adjusted from 11/16ths to 1 per cent. Corresponding changes have been made in other commercial bill rates.

It is not certain whether the initiative for this change came from the bank directly or followed from the recent increase in the turnover of bills in the market. It could be argued that the recent adjustment made by the banks in their charge for accommodation might have made them apprehensive about the amount of bill business which might be lost to them as a consequence. Whatever the explanation may be there is little doubt that now it has been achieved the change will be generally welcomed by the City – less so, of course, by those who have to pay more to have their bills discounted.

It would also appear that the change has had an official blessing. The authorities are not directly concerned with the price of accommodation in the bill market unless there is an immediate reaction on the rate for Treasury bills, but they had been informed about this change before it took place. So far as Treasury bills are concerned, there is no change made in the rate of three months bills and no change, it appears, is expected by the bill market.

Gold and Dollar Reserve Position

Some falling off in the sterling area's external position, and especially this country's trade results, was expected for the second quarter of this year. The question which most people were waiting to have answered was whether the deterioration would be large enough to reduce the size of the sterling area's gold and dollar reserves. The second quarter's figures were published last week and they show that although there was, as expected, a less favourable outcome for the sterling area's trade with the rest of the world in the second quarter than in the first, there was no net drain on its foreign exchange resources. There was in fact a slight gain.

During the quarter the sterling area earned a surplus of $54 million which together with certain credits still accruing from the period when this country was receiving Marshall Aid gave a total surplus of $109 million. Total gold and dollar reserves were therefore raised to $3,867 million. The steady expansion in reserves since the third quarter of 1949 was thus continued – but at a noticeably slower rate since the end of March.

The Chancellor of the Exchequer attributed much of the slowing down to a seasonal decline in the export earnings of the sterling area as a whole. This means in effect a decline in the expansion of the earnings from commodities. It is therefore probably true that the figures were already beginning to feel the effects of the large fall in the price of certain key international commodities in which the sterling area has a major export interest. Heavy falls, for instance, have been recorded in rubber, tin and wool.

The Chancellor had not a great deal to say on how far the position for the sterling area as a whole masked a rather worse situation in this country's balance of payments. He was content to point out that much of the worsened position so far as this country was concerned was due to the heavy burden of a larger import bill.

Transport in 1950

The 1950 operations of the British Transport Commission were published on Wednesday. It is possible to summarize little more than the figures from the 446-page document in the space available. The net deficit for the year was £14 million and this result, together with those for the two previous years, is set out in the following table.

The report has a good deal to say about the disadvantageous position of the Commission at a time of rising prices. The elaborate procedure for securing a rise in rates and charges makes it well-nigh impossible for the Commission to equate its revenue with costs. Several times of late, says the report,

(Millions of £s)

Year to December 31st	1950	1949	1948
	£	£	£
Principal carrying activities:			
Gross receipts ..	519·2	477·6	461·6
Working expenses ..	488·9	456·2	425·2
Net traffic receipts	30·3	21·4	36·4
Other principal activities:			
Net receipts	2·6	2·2	2·1
Other income ..	7·1	7·7	9·1
Working surplus ..	40·0	31·3	45·2*
Interest, administration, etc.	49·9	48·6	46·9
Redemption and special	4·2	3·5	3·0
Net deficit	*Dr.* 14·1	*Dr.* 20·8	*Dr.* 4·7

* After deducting £2,400,000 of pre-acquisition profits.

the transport systems have been in a position to balance incomings and outgoings thanks to higher charges, but this has been quickly made impossible by a further increase in costs.

The accumulated deficit to the end of last year was £39·6 million which means that the Commission has still no opportunity of increasing depreciation reserves to cover replacement costs much less the financing of expansion out of accumulated resources. The reserves of liquid assets are again lower on the year.

Uncertain Wool Prices

Wool prices have put up a remarkable performance in the course of the last few months. Between July 1950 and March 1951 the price of Merinos 64's, to take a typical example from the high quality wools, advanced from 151*d* a lb. to 314*d*. When the June buying season ended, they were back to 169*d*. Such swings are unprecedented even in this industry which saw some notable price variations at the end of the First World War.

The fact of such large movements is in itself a disturbing factor in the market. But there is the added uncertainty at the moment that few people are prepared to say that the swing downwards which has taken place in recent weeks is now at an end and that the return of prices to somewhere near where they were when the upsurge began in the early days of the Korean war heralds a period of comparatively stable prices.

It could well be that a comparatively small fall-off in the purchase of raw wool by the United States, if sustained over a period of weeks, might send prices further down.

REVIEWS

Insurance of Profits (Fifth Edition) by A. G. Macken

(Sir Isaac Pitman & Sons Ltd, London. 16*s* net)

The demand for profits insurance cover has largely increased – particularly during and since the Second World War – owing to the difficulties that have to be faced in the replacement of property, including buildings, machinery and other plant, which emphasize the likelihood of loss of business profits following the occurrence of fire. As a result of this, the services of accountants are in demand much more frequently than before to give guidance and advice on the various points which arise during the arrangement or revision of the insurances.

The reissue of Mr Macken's book, first published in 1926, is therefore most welcome. It is regarded as the authoritative text-book on this somewhat complicated subject and, in fact, it has been adopted by the Chartered Insurance Institute as their handbook on profits insurance.

This, the fifth edition, contains details of the latest policy wordings, and comments on items which are likely to require special consideration, e.g. – to name only a few of the points discussed – the insurance of wages, the arrangement of the cover on a departmental basis where appropriate, and the inclusion of a clause allowing a rebate of premium where the earnings, as certified by the insured's auditors at the end of the financial year, are shown to be less than the amount of the cover.

The Law and Practice of Meetings (Third Edition) by Frank Shackleton, F.C.I.S.

(Sweet & Maxwell Ltd, London. 35*s* net)

Here in less than 400 pages is surely everything that is to be said about the law and practice of meetings – their constitution and validity and the procedure to be adopted. The various kinds of company meetings – shareholders, directors, and winding-up – are considered as are those of chartered and statutory companies and of local authorities both in and out of London. Much interesting information is given about the functions of the police and the rights of the Press at meetings. Excerpts from relevant statutes are contained in appendices and there are tables of cases and statutes as well as a comprehensive index.

This, the third edition, has been brought up to date by the inclusion of the provisions of the Companies Act, 1948, and the Companies (Winding-up) Rules, 1949. The section on defamatory statements has been remodelled with the assistance of Mr Ian Fife, Barrister-at-Law.

Chairmen and secretaries, and indeed all whose business it is to attend meetings, should derive much benefit and, perchance, inspiration from reading this most lucid guide.

The Conditions of Economic Progress (Second Edition) by Colin Clark, M.A.

(Macmillan & Co Ltd, London. 50*s* net)

This is a revised edition of a book first issued in 1940; it has been completely rewritten, and incorporates much more extensive and up-to-date information. Following on the lines laid down by Marshall and Pigou, it represents a most comprehensive study of the national income and productivity in terms of real output per man-hour of very many countries over a considerable period of time. Comparisons are made possible by referring all data to 'international units', each of which represents the amount of commodities the dollar would purchase on average over 1925–34. The use of this unit enables income and productivity not merely for different countries at different times, but also for the different sectors of each economy (i.e. agriculture, manufacturing and the 'service' industries) to be validly compared one with another. The influence of the supply and distribution of labour and the accumulation of capital on the size of the national income are also developed at length.

Although the impact of total war upon the civil population and the post-war deterioration of Britain's economic position have both stimulated great interest in economic matters, the ordinary reader may find this book too advanced.

But it will remain the authoritative text-book on the subject of the national dividend.

Cost Accounting and Analysis by Carl Thomas Devine, Ph.D., C.P.A.

(Macmillan & Co Ltd, London. 37*s* 6*d* net)

This is an excellent American text-book, clearly and attractively written. It covers the whole theory and practice of cost accounting and even in the first section – which is mainly descriptive of the traditional methods of cost determination – it leads up to the practical use of cost data for control purposes, fully elaborated later. In the second section, which deals mainly with cost control, considerable prominence is given to standard cost techniques, Charter Harrison's remarks on the shortcomings of 'historical' costs being quoted with approval. This is, of course, in line with most American cost literature. The same section includes chapters on the relationship of cost accounting to various works and other functions, and also one on the design of systems.

The third section, developing the full theoretical implications of standard costs, deals with such more advanced matters as profit planning, break-even charts and flexible budgets. It also contains a chapter of considerable interest on the nature of cost – a subject rarely mentioned in accounting text-books. A final chapter deals with uniform costing.

At the beginning of the book there is a good summary of each chapter's contents; the index is adequate, and the format is particularly attractive.

The Substance of Economics (Thirteenth Edition) by H. A. Silverman

(Sir Isaac Pitman & Sons Ltd, London. 18*s* net)

The publication of the thirteenth edition of this text-book emphasizes the fact that it is one of the best introductions to economics available in this country. Although like all elementary text-books it presumably suffers from the danger of over-simplification, its lucidity and presentation generally make it especially useful to the student. The general reader who, mainly as a result of the war and its aftermath, is much more interested in economic matters than ever before, will also find that it meets his needs. The section on economic changes, covering the developments in the national economy during the last thirty years, and particularly during the war period and subsequently, is especially valuable. The problems of a mixed economy, of post-war rehabilitation, and of other features of the middle of the twentieth century, are well brought out.

The instances and statistics quoted are up to date (information from the Economic Survey of 1950 is included), and as in previous editions, there is a comprehensive bibliography.

Lewin on Trusts (Fifteenth Edition) by R. Cozens-Hardy Horne, Barrister-at-Law

(Sweet & Maxwell Ltd, London. £5 5*s* net)

This is without doubt the leading and most comprehensive text-book on this vast and confusing subject. The table of decided cases alone covers nearly 150 pages, the text filling more than 800. The Trustee Act of 1925, as well as other closely relevant Acts, is set out with cross-references to the text. The layout is clear, and footnotes have been kept within reasonable bounds. A chapter is devoted to the question of the trustee's personal liability to estate duty in respect of trust funds.

Without criticizing this great achievement, we would like to see in the section on implied trusts a discussion of the effect of partnership articles and other agreements which purport to confer benefits on persons other than the parties. The extent to which trusts are created in these cases is a little obscure. The statement on page 111 that void accumulations of income on realty go to the 'heir-at-law' is a little out of date.

SHORTER NOTICE

Differential Rating, by R. Horsley, A.I.M.T.A., F. N. Padgham, A.I.M.T.A., A.S.A.A., and H. R. Page, M.A.(ADMIN.), A.I.M.T.A. (The Institute of Municipal Treasurers and Accountants, London. 1*s* net.) The authors of this 32-page booklet present a brief yet erudite examination of this 'comparatively simple subject'. There is a survey of its application in the past, and in view of the changes in the Exchequer Grant System and the transfer of valuation functions to the Inland Revenue, its present position in the system of local rating is inspected.

FINANCE AND COMMERCE

With no increase in the volume of business stock markets remain steady. Any major change in market conditions now seems improbable before the autumn.

Jenson & Nicholson

We might almost call the annual publication of Jenson & Nicholson Ltd a treatise on paint. On the left of the page opening is the descriptive matter setting out the company's objectives, its equipment, the distribution system, etc., and on the right side is a series of photos showing paint production, testing and application. It is an extremely well done and interesting booklet. The accounts themselves are well set out and include under the heading 'Statement showing how the capital is employed', the assets and liabilities under main headings as well as the balance sheet in more usual form. This position at a glance is a useful adjunct to the normal accounts.

A particular point this year is the transfer of £12,058 to preference dividend equalization reserve, because the latest increase in profits tax has increased the amount required for one year's dividend on the three lines of preference capital.

The chairman points out that assuming the present rate of dividend on the ordinary capital is maintained, the increase in the tax from 30 to 50 per cent will increase the tax payable by the company in respect of the current year by approximately £17,000. The additional payment is equivalent to a distribution of about 9 per cent on the ordinary shares. He emphasizes that the charge falls ultimately on the ordinary shareholders even though a part of it is in respect of a distribution on the preference capital, which in this company totals £453,231 before the £183,000 in ordinary.

Columbia Gas

We are indebted to one of our readers for a sight of the accounts of the Columbia Gas System Inc., the American gas supply undertaking which, wholesale or retail, serves an area extending from the borders of the State of New York across Pennsylvania, Maryland, Ohio, West Virginia and Kentucky. The gas system is explained in a map and in the report on the year's work and its results. We found this description, in fact, the most interesting part of the company's publication.

In America they have a substantial supply of gas from natural sources which for this company means the Appalachian area. Geologists and engineers have developed maps of the underground rock strata showing the gas-yielding sands and when one of these areas has yielded part or all of the original gas, held there for millions of years, the structure can, in many instances, be converted to a storage reservoir. Compressors force gas underground at high pressure and the wells are joined into the transmission system in the winter when the demand is greatest. At November 1st last, 128 billion cubic feet of gas was thus stored. All the facts of supplies and operations given in the report – this year for the first time in question and answer form – are further set out in graphs and diagrams.

The accounts, particularly the results of operations, are in a form which makes for easy reading and understanding. Here, for example, is one of the expense items: 'For payrolls and benefits (chargeable to operations) to employees totalling 10,045 at the close of 1950 – the increase is due mainly to higher pay rates since relatively few additional employees are needed to handle our increasing volume of business.'

New Treatment

A new treatment for depreciation has been used in the 1950 accounts of the Eury Felt Manufacturing Co Ltd. The first point is that fixed assets – freehold and leasehold mill premises, reservoirs, plant, machinery, equipment and vehicles, etc. – stand in the balance sheet at a written-down value of £109,785. A note to the item explains that these assets were valued in 1947 as a going concern at a total of £429,460.

It is now stated by the chairman, Lieut.-Col. A. Buckley, that in a recent valuation for insurance purposes, the valuers arrived at a present-day depreciated value of the buildings, plant, machinery, etc., at over £800,000 and a replacement value in excess of £1 million. Some portion of the increase on the 1947 valuation, he points out, is accounted for by the present inflated costs of replacing plant and machinery.

In view of the large disparity between these valuations and the figure of £109,785 at which fixed assets appear in the balance sheet, the £20,000 charged in profit and loss account for depreciation and development has been carried to a new reserve account in the balance sheet instead of being deducted from the assets figure. This practice will be continued in future.

Cricket Accounts

This week's reprint – the accounts of the Yorkshire County Cricket Club – provide something in the way of a change from the usual company accounts. We have here an insight into the finances of county cricket, and from this angle alone, the accounts will probably prove interesting to many readers. The main purpose, however, is to provide accounts for accountants who we may leave to browse as they will.

Money Market

Treasury bill applications totalled £324,140,000 on July 6th. The market received 70 per cent of requirements with the average rate 10s 3·19*d* per cent. There is no Treasury deposit receipt call.

YORKSHIRE COUNTY CRICKET CLUB

Balance Sheet as at December 31st, 1950

LIABILITIES

1949 £ s d	1949 £ s d		£ s d	£ s d	£ s d
		Capital and Reserves			
24,912 6 5		Accumulated Fund as at December 31st, 1949	25,058 8 3		
3 13 9		*Add* Profit on Redemption of £1,000 New South Wales 4 per cent Stock 1942–62 ..	—		
100 0 0		*Add* Repayment of Loan to Mrs S. Haigh	—		
437 12 7	25,453 12 9	*Add* Surplus on Revenue Account to December 31st, 1950	750 3 3	25,808 11 6	
	395 4 6	*Less* Cost of Dinner to celebrate Lancashire *v.* Yorkshire Centenary		—	
	25,058 8 3			25,808 11 6	
1,722 0 0		Life Membership Account: Fees received to December 31st, 1949	1,848 0 0		
126 0 0	1,848 0 0	Life Members elected in 1950..	126 0 0	1,974 0 0	
	26,906 8 3				27,782 11 6
		Revenue Reserves			
16,429 2 0		Ground Improvements and Reinstatement Fund as at December 31st, 1949	17,000 0 0		
570 18 0	17,000 0 0	*Add* Provision made December 31st, 1950	5,806 10 10	22,806 10 10	
		Less Improvements completed at Sheffield and Leeds ..		3,806 10 10	
				19,000 0 0	
	151 7 0	Reserve for Future Taxation: Income Tax, Schedule D, 1951–52, based on untaxed interest received		156 16 6	19,156 16 6
		Current Liabilities			
1,090 8 4		Sundry Creditors		1,375 0 0	
1,550 0 0	2,640 8 4	Income Tax, Schedule D, 1950–51, based on accounts to December 31st, 1949		—	1,375 0 0
	£46,701 3 7				£48,314 8 0

ASSETS

1949 £ s d	1949 £ s d		£ s d	£ s d
985 0 4		4% Funding Loan, 1960–1990 £1,000 .. .. at cost	985 0 4	
5,818 18 6		3½% War Stock £6,000 .. .. „	5,818 18 6	
2,000 0 0		3% Savings Bonds, 1955–1965 £2,000 .. .. „	2,000 0 0	
1,932 18 0		3% Savings Bonds, 1960–1970 £2,000 .. .. „	1,932 18 0	
1,902 18 0		3% Savings Bonds, 1965–1975 £2,000 .. .. „	1,902 18 0	
2,500 0 0		2½% Treasury Stock, 1975 £2,500 .. .. „	2,500 0 0	
500 0 0		3% Defence Bonds £500, January 29th, 1943 .. .. „	500 0 0	
1,500 0 0		2½% Defence Bonds £1,500, March 1st, 1947 .. .. „	1,500 0 0	
3,621 0 7		British Transport £5,000 3% Guaranteed Stock, 1978–1988 „	3,621 0 7	
—		British Electricity £2,000 3½% Guaranteed Stock, 1976–1979 „	1,996 13 0	
—		Commonwealth of Australia £1,500 3½% Stock, 1956–1961.. .. „	1,501 18 10	
990 0 6		Commonwealth of Australia £1,000 3% Registered Stock, 1964–1966 „	990 0 6	
1,481 8 0		Commonwealth of Australia £1,500 3% Registered Stock, 1965–1968 „	1,481 8 0	
5,000 0 0		Glasgow Corporation £5,000 2¾% Mortgage, March 31st, 1955 „	5,000 0 0	
5,000 0 0		Harrogate Corporation £5,000 2½% Mortgage, November 25th, 1955 .. .. „	5,000 0 0	
Gift	33,232 3 11	Leeds C.F. & A. Co Ltd, 980 Cumulative Preference Shares of £1 each, fully paid .. .. .. } 150 Ordinary Shares of £1 each fully paid }	Gift	36,730 15 9
		(Estimated value at December 21st, 1950, £38,065 0s 0d)		
		Cash at Bankers and Savings Accounts: National Provincial Bank Ltd:		
177 11 11		Current Account	596 7 9	
—		Deposit Account	1,500 0 0	
2,000 0 0		Provincial Building Society	—	
1,250 0 0		Post Office Savings Bank	1,750 0 0	
1,000 0 0	4,427 11 11	York County Savings Bank	1,500 0 0	5,346 7 9
	1,850 0 0	Tax Reserve Certificates		625 0 0
		The Leeds Cricket, Football and Athletic Co Ltd		
5,000 0 0		Loan *re* Test Match Stand	5,000 0 0	
191 7 9	5,191 7 9	Loan *re* Dressing Room	191 7 9	5,191 7 9
	200 0 0	Hull Cricket Club Ltd: 7-year Loan repayable October 27th, 1951		200 0 0
	—	Sundry Debtors		20 16 9
	200 0 0	Office Furniture		200 0 0
	1,600 0 0	Payment on account of Improvements at Sheffield and Leeds		—
	£46,701 3 7			£48,314 8 0

A. WYNDHAM HESELTON, Hon. Treasurer
P. BARRETT, Assistant Secretary.

January 4th, 1951.

Audited and found correct,
CHAS. L. WIDLAKE } *Chartered Accountants.*
J. S. WORTLEY }

YORKSHIRE COUNTY CRICKET CLUB

Revenue Account for the Season 1950

INCOME

December 31st, 1950

Gate Receipts, including Entertainment Tax

	£ s d	£ s d	£ s d
Sheffield			
Yorkshire v. Lancashire		3,347 11 6	
v. Essex		498 15 0	
v. Surrey		2,291 17 6	
v. West Indies		5,746 16 0	
			11,885 0 0
Leeds			
Yorkshire v. Sussex		432 12 0	
v. Nottinghamshire		816 9 0	
v. Middlesex (L. Hutton's Benefit) ..	£2,668 18 0		
Pluvius Insurance Claim	60 1 7		
		2,728 19 7	
v. Northamptonshire		1,658 10 0	
			5,636 10 7
Bradford			
Yorkshire v. West Indies		1,268 16 6	
England v. The Rest		1,841 12 4	
Yorkshire v. Derbyshire		1,863 14 6	
v. Hampshire		592 4 0	
v. Warwickshire		1,190 8 6	
			6,756 15 10
Hull			
Yorkshire v. Gloucestershire			1,281 4 0
Scarborough			
Yorkshire v. Kent			1,529 15 2
Huddersfield			
Yorkshire v. Somerset			227 10 6
Harrogate			
Yorkshire v. Leicestershire			568 5 6
Lord's			
Yorkshire v. M.C.C.			176 0 0
Oxford			
Yorkshire v. Oxford University			50 0 0
Cambridge			
Yorkshire v. Cambridge University			50 0 0
Edinburgh			
Yorkshire v. Scotland			150 0 0
			28,311 1 7
Barnsley			
Yorkshire Second v. Nottinghamshire Second		18 1 0	
Middlesbrough			
Yorkshire Second v. Staffordshire		39 10 6	
York			
Yorkshire Second v. Cheshire		41 9 0	
Thirsk			
Yorkshire Second v. Northumberland ..		35 0 0	
Bingley			
Yorkshire Second v. Lincolnshire		42 19 6	
Carried forward ..		177 0 0	28,311 1 7

EXPENDITURE

December 31st, 1950

Match Expenses, showing Entertainment Tax

	£ s d	£ s d	£ s d
Sheffield			
Yorkshire v. Lancashire ..	1,795 1 4		
Entertainment Tax	238 8 9		
		2,033 10 1	
Yorkshire v. Essex	748 14 11		
Entertainment Tax	33 1 8		
		781 16 7	
Yorkshire v. Surrey	1,385 18 11		
Entertainment Tax	163 5 6		
		1,549 4 5	
Yorkshire v. West Indies ..	1,498 5 3		
Entertainment Tax	494 12 3		
Share to West Indies ..	2,297 0 9		
		4,289 18 3	
			8,654 9 4
Leeds			
Yorkshire v. Sussex	790 18 0		
Entertainment Tax	30 10 11		
		821 8 11	
Yorkshire v. Nottinghamshire..	898 6 6		
Entertainment Tax	61 18 1		
		960 4 7	
Yorkshire v. Middlesex (L. Hutton's Benefit) ..	1,468 10 4		
Entertainment Tax	228 19 7		
Balance to Benefit Fund ..	1,031 9 8		
Insurance of Gate	312 11 0		
		3,041 10 7	
Yorkshire v. Northamptonshire	1,138 0 3		
Entertainment Tax	127 9 8		
		1,265 9 11	
			6,088 14 0
Bradford			
Yorkshire v. West Indies ..	652 2 10		
Entertainment Tax	116 13 8		
Share to West Indies ..	461 15 0		
		1,230 11 6	
England v. The Rest	799 3 2		
Entertainment Tax	173 14 2		
Balance to Board of Control	868 15 0		
		1,841 12 4	
Yorkshire v. Derbyshire ..	912 5 5		
Entertainment Tax	144 15 3		
		1,057 0 8	
Yorkshire v. Hampshire ..	917 0 3		
Entertainment Tax	39 13 7		
		956 13 10	
Yorkshire v. Warwickshire ..	919 12 11		
Entertainment Tax	107 19 4		
		1,027 12 3	
			6,113 10 7
Hull			
Yorkshire v. Gloucestershire		1,012 16 6	
Entertainment Tax		75 18 0	
			1,088 14 6
Scarborough			
Yorkshire v. Kent		799 16 7	
Entertainment Tax		117 19 0	
			917 15 7
Huddersfield			
Yorkshire v. Somerset		648 8 8	
Entertainment Tax		17 13 7	
			666 2 3
Harrogate			
Yorkshire v. Leicestershire		470 6 4	
Entertainment Tax		42 19 11	
			513 6 3
Cardiff			
Yorkshire v. Glamorgan			241 10 0
Worcester			
Yorkshire v. Worcestershire			254 10 0
Lord's			
Yorkshire v. M.C.C.			265 10 0
Oxford			
Yorkshire v. Oxford University			268 10 0
Cambridge			
Yorkshire v. Cambridge University ..			261 10 0
Edinburgh			
Yorkshire v. Scotland			237 10 0
			25,571 12 6
Barnsley			
Yorkshire Second v. Nottinghamshire Second		268 11 7	
Middlesbrough			
Yorkshire Second v. Staffordshire		320 16 6	
York			
Yorkshire Second v. Cheshire		286 19 8	
Thirsk			
Yorkshire Second v. Northumberland ..		326 8 9	
Bingley			
Yorkshire Second v. Lincolnshire		257 19 3	
Carried forward ..		1,460 15 9	25,571 12 6

YORKSHIRE COUNTY CRICKET CLUB

Revenue Account for the Season 1950 – *continued*

Income

December 31st, 1950

		£ s d	£ s d
Brought forward ..		177 0 0	28,311 1 7
Scarborough			
Yorkshire Second v. Durham		183 0 0	
Hull			
Yorkshire Second v. Lancashire Second ..		232 12 6	
			592 12 6
			28,903 14 1
Board of Control			
Share of Profit on West Indies Test Matches, 1950			1,474 7 11
Share of Profit on Test Trial Match at Bradford			270 0 6
Sundry Receipts – Test Trial Match			14 16 6
Subscriptions, 1950		16,398 7 6	
Arrears, 1949		63 10 6	
Donations		15 15 0	
			16,477 13 0
Members' Reserved Seats			
Headingley Ground, Leeds		225 0 2	
Park Avenue Ground, Bradford		161 7 2	
			386 7 4
Interest on Loans and Dividends:			
4% Funding Loan, 1960–1990		22 0 0	
3½% War Loan		210 0 0	
3% Savings Bonds, 1955–1965		33 0 0	
3% Savings Bonds, 1960–1970		33 0 0	
3% Savings Bonds, 1965–1975		33 0 0	
2½% Treasury Stock		34 7 6	
3% Defence Bonds		15 0 0	
2½% Defence Bonds		37 10 0	
British Transport 3% Guaranteed Stock, 1978–1983		82 10 0	
British Electricity 3½% Guaranteed Stock, 1976–1979		11 11 0	
Australia 3½% Stock, 1956–1961		14 3 3	
Australia 3% Stock, 1964–1966		16 10 0	
Australia 3% Stock, 1965–1968		24 15 0	
Glasgow Corporation		75 12 6	
Harrogate Corporation		68 15 0	
Leeds C.F. & A. Co Ltd			
6 per cent Preference Shares	£32 6 9		
Ordinary Shares	4 19 0		
		37 5 9	
			749 0 0
Other Interest:			
Deposit Account		16 0 6	
Provincial Building Society		48 6 8	
York County Savings Bank		34 7 6	
Post Office Savings Bank		35 19 8	
Interest on Tax Reserve Certificate		13 12 0	
			148 6 4
Sundry Receipts			312 18 5
Income Tax Reclaim, 1949–50			532 2 0
			£49,269 6 1

Expenditure

December 31st, 1950

		£ s d	£ s d
Brought forward ..		1,460 15 9	25,571 12 6
Scarborough			
Yorkshire Second v. Durham	£378 9 11		
Entertainment Tax	4 5 2		
		382 15 1	
Hull			
Yorkshire Second v. Lancashire Second ..		387 17 9	
			2,231 8 7
			27,803 1 1
Deferred Repairs to County Grounds:			
Amount expended during the year		4,020 12 10	
Provision for further expenditure		5,806 10 10	
			9,827 3 8
Test Trial Match at Bradford:			
Rent of Ground paid to Bradford C.C. ..			150 0 0
Practices and Coaching		837 14 3	
Winter Pay		1,541 10 0	
Cost-of-living Bonuses		1,764 0 0	
Talent Marks		240 0 0	
Ground Disbursements, Rent of Ground for Practices etc.		201 10 6	
Caps, Blazers and Sweaters		89 6 11	
Grants to Old Players and Others		553 12 5	
Donations to County Cricket Beneficiaries ..		70 0 0	
Donation to Cricketers' Fund Friendly Society		5 5 0	
Annuity payable to George H. Hirst	£55 0 0		
Less Income received from £2,500 3 per cent Savings Bonds	41 5 0		
		13 15 0	
Wages of non-selected Players ..	333 0 0		
Young Players' Ground Wages ..	236 11 3		
		569 11 3	
			5,886 5 4
Printing Members' Tickets, Year Books and General	2,266 2 11		
Less Receipts	747 13 0		
		1,518 9 11	
Postages		423 2 8	
Sundry Expenses of Meetings		209 2 9	
			2,150 15 4
Office Rent, Rates, Telephones and Sundries ..		400 16 10	
Secretary's Salary and Office Staff Salaries and Audit Fees		1,806 10 0	
			2,207 6 10
Insurances:			
Players' Accident Insurance		110 5 0	
Workmen's Compensation Insurance ..		10 18 6	
National Health Insurance		95 16 4	
			216 19 10
Corporation Duty		53 5 1	
Income Tax		159 10 6	
			212 15 [illegible]
Bank Charges			64 15 2
Balance, being surplus for the year			750 3 3
			£49,269 6 1

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Speed in Production of Monthly Accounts

Sir, – I have read with interest the letter from Mr Robert Lowe in your issue of June 30th, regarding speed in the production of monthly accounts. As it appears that this letter is something in the way of a challenge, I thought you might be interested to know that our monthly accounts are made up from the last day in the month and have to be ready, without fail, by the 10th of the following month. This is regardless of the incidence of week-ends and bank holidays, so consequently at certain times of the year we have to be completed by the 8th of each month. By careful planning and staggering of work as far as is possible, we manage to achieve this without any great strain and do not have to resort to estimation, except for very minor amounts.

We have 1,200 employees.

Yours faithfully,

Ealing, W5. C. D. JACKSON, A.C.A.

Commission Agents

Sir, – Advice is sought as to the treatment of travelling expenses in the case of a client selling shoes on commission only, no expenses being allowed by the firms concerned. The charge for motor and hotel expenses has been queried by the Inspector, who

seeks to disallow the sum of 5*s* for every full day away from home as a reasonable amount for maintenance. Could any reader who has dealt with a case of this nature advise as to whether this is the general practice? (i.e., 13*s* 6*d*, bed and breakfast, 5*s* disallowed).

Yours faithfully,
E. A.

A Theory of Profit is Unnecessary

SIR, – I see from Mr S. R. Brown's article 'Australasian Commentary – I' in your issue of June 23rd last, that orthodox profits are being questioned 'down under', where Mr J. M. Greenwood refers to the short-comings of accountants. He points out that they have not built up a theory of profit and have no complete philosophical system of thought about income; he appears to be of the opinion that for a true definition of the latter, accountants must rely upon economists.

I would like our Australian friends to be reassured, through the hospitality of your columns, that orthodox profits have by no means been abandoned here, that many of us do not feel any need for a theory of profit, and believe that philosophy has no place in the mundane affair of the calculation of income.

So far as accountants are concerned, the whole controversy would disappear if money were abandoned, and while it is retained, profit is ultimately as definite as the remaining items of national income, namely wages, interest and rent. It is in fact the difference between the sum of these and the money value given to the product by the community. This value is fixed as the goods cross the counter for consumption and is as definite as the total of wages, interest and rent. The difference between two quite definite amounts cannot itself be in doubt, hence orthodox profits are unambiguous, and do not need the support of any theory or philosophical system of thought.

This is the ultimate position and to arrive at interim profits, all that is necessary is to see that we do not charge against sales to date, outlay on that part of the product not yet sold. This we achieve by orthodox accounting methods.

It has always been understood that profit depends upon the value placed upon wealth, but what seems to have been lost sight of in recent years is that this value is in the end quite fixed and definite, being the selling price of the product, for in one way or another, all wealth produced is sold to consumers, including capital equipment, and its value is fixed as it, in effect, crosses the counter.

It is quite impossible for our economist friends to alter this, and if accountants at their suggestion, and to conform to a theory of profits, or some philosophical system, abandon orthodox methods, all that happens is that a value is given to the product not yet sold, namely equipment and stock, which is different from the money outlay which produced it.

Since all things are sold in the end, this alteration is necessarily of a temporary nature and in carrying it out, accountants put themselves into the position of making decisions for the business man as to the saving or spending of orthodox profits, decisions which he should make for himself. They lay themselves open to the charge of interfering between sections of the community as to the current division of the national cake and hence in due course they will find themselves in the political arena where they are likely to lose their hard-won reputation for truth, fairness, impartiality and accuracy.

I hope that my fellow accountants in Australia, or wherever they may be, will not be misled by the idea that they can better serve the community if they abandon orthodox methods, for the ultimate truth of orthodox profits is not in doubt, and truth will always prevail.

Yours faithfully,
H. A. BRISCOE.

King's Norton, Birmingham.

Clothing Allowances

SIR, – As a country practitioner, I have recently been approached by various general medical practitioners with whose affairs I deal, concerning allowances to them for excessive consumption and wear and tear of what are now very expensive clothes.

I have been told by them that their colleagues in some areas obtain allowances up to £60 per annum to cover the extra cost due to damage during attendance on patients.

I would very much appreciate comments by other rural practitioners.

Yours faithfully,
SINBAD SECUNDUS.

Goodwill and Taxation

SIR, – May I make a slight addition to my article on 'Goodwill and taxation' which appeared in your issue of June 23rd, 1951? In relation to estate duty on a partner's death before retirement (page 610), I stressed the undesirability of his interest terminating on his death where he was related to his successor. I said:

> 'The agreement can, of course, provide for the termination of the senior partner's interest on his retirement, but it is doubtful whether such a provision would avoid duty if in fact he died suddenly without having retired.'

I ought to have added a warning that a provision for termination on retirement or death in the alternative would be deemed to be for termination on death (Finance Act, 1940, Section 58 (6)).

Yours faithfully,
London, WC2. PETER WHITWORTH.

Theatre and Cinema Managers: Salaries

SIR, – I have to refer to the letter which appeared in your issue dated June 30th last under the pseudonym 'Hamlet' in relation to cinema managerial rates of salaries.

The minimum rates of salaries and conditions of

employment afforded all grades of cinema management are governed by a national agreement between the Cinematograph Exhibitors' Association of Great Britain and Ireland and ourselves dated December 29th, 1946, and subsequently amended with effect from February 12th, 1951.

There are ten grades of salaries ranging from £6 to £17 per week, the gradings being related to the money-holding capacities of the respective cinemas and their average weekly net takings during the previous twelve months.

Emoluments additional to salary are payable to managers undertaking the responsibility of booking films, operating children's club *matinées* and sponsoring trade shows.

It may interest your correspondent to know that we are currently negotiating with our employers in an effort to secure a 'cost-of-living' bonus for all managerial grades.

Should your correspondent desire further information, this will readily be made available on application to this organization.

Yours faithfully,
SAMUEL BUTCHART
General Secretary
THE SOCIETY OF CINEMA MANAGERS OF GREAT BRITAIN AND IRELAND (AMALGAMATED)
London, W9.

Valuation of Shares

SIR, – I should be glad to receive the views of your readers as to the method to be adopted in valuing the shares of a private limited company on the super-profits basis.

The particular difficulties I have in mind are:

(1) After having arrived at the average profits over a specified number of past years and deducting therefrom reasonable directors' remuneration, should any sum be further deducted in respect of profits tax and if so, at what rate, whether at 10 per cent or the 50 per cent rate.

(2) In arriving at the average profits, upon what basis should depreciation be computed, whether on the book value, the original cost price or the present replacement value. This point is particularly important when valuing the shares of a private limited company which is a controlled company for estate duty purposes because in the assets valuation, the market value of the fixed assets has to be taken into account.

Perhaps also some of your readers may be able to indicate the attitude taken by the Estate Duty Office in connexion with these two particular points.

Yours faithfully,
STUDENT.

Pay during Sickness

SIR, – A company with which I am associated has hitherto paid for indefinite periods the salaries of those members of its staff who were on sick leave.

Now, however, it is desired to make a definite arrangement that pay during sickness will only continue for a fixed number of weeks in any one year. To counter the likely fault of staff members seeking to take without real cause their full quota of paid sick leave it is proposed to pay each year, to the staff members, a bonus based directly on their individual unused portions of paid sick leave.

Quite frankly I cannot make up my mind about such an arrangement and I shall be glad to have the views of your readers, particularly of any who have been able to examine a similar scheme in practice.

Yours faithfully,
INCOR.

Pension Schemes

SIR, – Perhaps I might make a few comments on the point raised in 'Underdone's' letter published in your issue of June 30th.

If an employer is considering the alternative of a private fund or an endowment assurance scheme he will normally call for estimates of cost from a consulting actuary and an insurance company respectively. The company's estimates will be higher because:

(1) An endowment assurance scheme provides life assurance benefit which is not included in a private fund.

(2) An endowment assurance scheme carries a guarantee of premiums and the insurance company normally leaves a margin in the rates for contingencies. On the other hand, the guarantee means that their estimate of cost will correspond with the real cost, except as regards changes in salaries or in the number of members etc. Under a private fund the real cost depends on the actual rates of interest, mortality, etc., which are experienced during the operation of the fund, and it may differ considerably from the estimated cost. If the actuary has been over-optimistic the real cost will be higher than the estimated cost, and conversely.

(3) The consulting actuary reduces his estimate of contributions in anticipation of the money expected to accrue to the fund in respect of future withdrawals. The insurance company makes no assumptions regarding this very variable factor. Under an endowment assurance scheme, however, the real cost will be less than the estimated cost by the amount of the surrender values which will be paid by the insurance company in respect of employees who withdraw from the service.

(4) There are at present some tax anomalies between insured schemes and private funds which are adverse to the insured schemes. These anomalies are under consideration and there is some suggestion that the tax position may be adjusted.

In fairness to assurance companies I should add that the cost under without profit endowment assurance schemes is never 'fantastic'. Too many of these schemes have already been adopted by hard-headed business men for there to be any possibility that the insurance companies are profiteering.

Yours faithfully,
A. E. BROMFIELD, M.A., F.F.A.
Edinburgh.

Death Duties

SIR, – I am interested in a private director-controlled company (engaged in a branch of the motor trade), the profits of which have been consistently good until now, and have almost entirely been ploughed back to finance the expansion of the business. The result is that the balance sheet now shows large undistributed profits, as no ordinary dividend has been declared for several years and the market value of the ordinary shares is considerably in excess of their nominal value.

The problem with which the company is faced is not a new one in these days of high taxation and death duties, and it is, in this instance, with the latter that the crux of the matter lies.

The managing director holds the controlling interest in the company, and upon his death, the duty payable on his estate would be considerable, unless some method can be evolved to remedy the position.

Could any reader suggest any method to alleviate the all-too-apparent difficulties that will ultimately ensue, assuming that it is impracticable to convert the company into a public company? Various ideas have been put forward, but none has, as yet, proved workable, and I would appreciate suggestions from any reader who has already had experience of a similar position.

Yours faithfully,
H.

'Conscience' Money paid in Error

SIR, – Have any of your readers an experience of endeavouring to recover 'conscience' money paid on account of income-tax by a trader who had made no returns and prepared no accounts?

On preparation of accounts it is apparent that through ignorance the amount paid would exceed the liability, and, it is hoped, any possible penalties.

Can anyone quote a precedent for set-off of such amounts paid under a *nom de plume*, or is there any possibility of recovery from the Revenue?

Yours faithfully,
SHELDON.

Purchase Tax: Stock Problem

SIR, – In reply to 'Dands', whose letter was published in your issue dated June 30th last, the valuation of a stock of a high-class boot and shoe dealer is very similar to the valuation of any fashion stock. If the goods are 'dated' they should be marked down to a realizable price. It is nonsense to say that the market price is really more than its cost price – the market price is the price at which the specific goods will sell in the open market at that time which, if the goods remain on the shelves beyond, say, two seasons, may be negligible.

The normal method of valuing such stock is to date the stock to seasons or stocktakings, i.e. if we take 1947 (and before) purchases as A, 1948 at B, 1949 as C, and 1950 as D, we are able to segregate the stock into seasons and we then depreciate C stock by 10 per cent off the cost price, B stock by 25 per cent, and A stock by $33\frac{1}{3}$ per cent or 50 per cent before entering the stock into the books.

In the following year the seasons move one forward, C stock becomes less 25 per cent and so on.

This method is accepted by the Inland Revenue and is normal among fashion houses; the amount of depreciation may vary but the figures given are not too drastic.

The secret of success in a fashion house is adequate stock-turn; the old stock must be cleared or the business will ultimately perish.

Yours faithfully,
Sheffield. S. BLEASDALE.

Integral Book-keeping: A Problem

SIR, – In answer to your correspondent, Mr Clothier, (July 7th), who has apparently reached an impasse with his cost office on the question of relative merits of various columns in the day-book.

Surely the method of original entry is quite immaterial so long as the correct charge is debited to 'maintenance account'. The amount so debited must obviously be the net amount of the contractor's invoice plus the cost of materials from stock. In this case the method advocated by the cost office will give the correct result, whereas it seems that of the accounts department will show an inflated charge for maintenance because, in effect, the materials withdrawn from stores will be charged via the stock summaries to 'maintenance', and the full amount of the contractor's charge also debited to maintenance.

If my interpretation is wrong and the correct entry will be made to maintenance account by either method, then the cost office still have my vote over the 'hair-splitting' because the mere fact of these materials having been used for maintenance does not alter the fact that they were originally purchased, the purchases, therefore, should be the gross amount.

On Mr Clothier's method of reasoning it would seem that, if materials have been purchased and then *all* been used in 'production' or 'maintenance', then there have, in effect, been no purchases of such material – the full amounts having disappeared in the 'netting' process.

Admittedly, the gross amounts of such purchases are not necessary from the point of view of the profit and loss account, but they may be needed for a host of other statistical and analytical purposes, e.g. inventory turnover, percentage of non-productive to productive purchases, etc.

I have used the term 'hair-splitting' in my letter because, under the system outlined, the day-book is quite obviously unnecessary in any case. However, I will not enlarge on that point as it is rather outside the scope of the question.

Yours faithfully,
Brighton, 6. C. L. METCALFE.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, July 4th, 1951, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair, Mr T. B. Robson, M.B.E., Vice-President, Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., P. Morgan-Jones, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, B. Smallpeice, E. E. Spicer, C. M. Strachan, O.B.E., E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. G. Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Mr H. B. T Wilde, with the Secretary and Assistant Secretaries.

Readmission

One application for readmission to membership was acceded to.

Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to.

Three applications under bye-law 63 (*c*) for a reduction in the period of service under articles were acceded to.

Exemption from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

One application under bye-law 63 (*a*) for exemption from the Preliminary examination was acceded to and two applications were not acceded to.

Exemption from the Intermediate Examination

One application under bye-law 85 (*b*) for exemption from the Intermediate examination was acceded to and one application was not acceded to.

London and District Society of Chartered Accountants

The following were appointed as representatives of the Council on the Committee of the London and District Society of Chartered Accountants for the ensuing year:

Messrs. S. H. Gillett, L. W. Robson, G. L. C. Touche.

Appointments while serving under Articles

An application under bye-law 57 from an articled clerk for permission to accept, during service under articles, a partnership in a family business was acceded to, provided that the time involved does not exceed eight hours per month.

An application under bye-law 57 from an articled clerk for permission to become, during service under articles, a director of two private limited companies was acceded to, provided that the time involved does not exceed twelve hours per month.

American Institute of Accountants

The Secretary was authorized to accept the invitation of the American Institute of Accountants to attend their sixty-fourth annual meeting, which will be held at Chalfonte-Haddon Hall, Atlantic City, New Jersey, from October 6th to 10th, 1951.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following twenty-four associates who have commenced to practise:

Barlow, Derrick; 1951, A.C.A.; (D. Barlow & Co), 28 Brendon Road, New Eltham, London, SE9.

Bradley, John Howard; 1950, A.C.A.; (Glass & Edwards), 3 Stanley Street, Liverpool, 1.

Bunker, Harry Lewis Langley; 1950, A.C.A.; (*Andrews, Hutton, Roberts & Co), Oxford House, 67 Lower Union Street, Bristol, 1.

Burman, Richard; 1939, A.C.A.; (Roberts, Hall & Co), 109 Colmore Row, Birmingham, 3.

Duffield, Hubert Philip; 1937, A.C.A.; (Arthur Haslam & Co), Kingscourt, Bridge Street, Walsall.

Finlay, Philip; 1951, A.C.A.; 68 Leyton High Road, London, E.15.

Gray, John Campbell Austin; 1950, A.C.A.; (Noel, Shackell & Gray), Midland Bank Chambers, 97–100 Bute Street, Cardiff, and at Brecon, Merthyr Tydfil and Mountain Ash.

Gregg, Frank; 1951, A.C.A.; 34 Devonshire Road, Davenport Park, Stockport, Cheshire.

Grosse, John Marshall, LL.M.; 1950, A.C.A.; (John Watson, Sons & Wheatcroft), and (Frank Coward & Co), Norfolk Chambers, 9 Norfolk Row, Sheffield, 1, and (J. P. Sharman & Son), 93 Queen Street, Sheffield, 1; also at Retford, (John Watson, Sons & Wheatcroft).

Hall, Michael, M.M.; 1921, A.C.A.; Cornhill, Ilminster, Somerset.

Hooper, Peter Thomas Jones; 1951, A.C.A.; 35 King's Road, Mumbles, Swansea.

Johnston, Charles Gordon, T.D., B.A., 1946, A.C.A.; (Kemp, Chatteris & Co), 1 Throgmorton Street, London, EC2.

Jordan, Peter George; 1950, A.C.A.; 30 Montgomery Road, Sheffield, 7.

Manwaring, Ronald Hedley; 1950, A.C.A.; 164 West Street, Dunstable.

Morgan, David Faulkner; 1938, A.C.A.; 36 Queen Street, Ton Pentre, Rhondda, Glamorgan.

Prusmann, Frederick Leslie; 1926, A.C.A.; (Carter, Chaloner & Kearns), Royal Mail House, 76 Cross Street, Manchester, 2.

Rowley, Robert Austen; 1951, A.C.A.; (John Rowley & Co), 20 Friar Lane, Leicester.

Rutherford, John Thomas; 1951, A.C.A.; 133 Culver Grove, Stanmore, Middlesex.

Scoggins, John Scott; 1948, A.C.A.; (Trussler, Bellamy & Scoggins), 28 Sea Road, Bexhill-on-Sea.

Staton, Sidney Worrall; 1922, A.C.A.; (John Watson, Sons & Wheatcroft), and (Frank Coward & Co), Norfolk Chambers, 9 Norfolk Row, Sheffield, 1, and (J. P. Sharman & Son), 93 Queen Street, Sheffield, 1; also at Retford, (John Watson, Sons & Wheatcroft).

Taylor, John Francis; 1931, A.C.A.; (Kemp, Chatteris & Co), 1 Throgmorton Street, London, EC2.

Vaz, Jack Jacob Nunes; 1949, A.C.A.; 13 Kingsley Court, St Paul's Avenue, London, NW2.

West, Neville Ernest, M.A.; 1951, A.C.A.; (*West, Barrett & Co), 41 Beach Road, Littlehampton, Sussex.

Wood, Frederick George; 1951, A.C.A.; 67 Rosemary Avenue, Hounslow West, Middlesex.

(2) That twelve associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That one associate be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

A list of those who complete their fellowship or membership before July 17th will appear in *The Accountant* on July 21st.

Articled Clerks; Deferment of National Service

The Ministry of Labour and National Service has made a change in the regulations regarding deferment of national service. The regulations affected are items (*b*) and (*c*) at page 35 of the Institute booklet 'General Information and Syllabus of Examinations'. These two items are now replaced by the following regulation:

'A man may be granted deferment to remain in full-time attendance at school or similar educational establishment if he wishes to sit or re-sit an external examination. A student so deferred may be allowed to complete the school year in which

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

he sits the examination but such deferment can in no case extend beyond the end of the school year in which he became 19.'

which should be read in conjunction with the remainder of the regulations.

Registration of Articles

The Secretary reported that 49 articles of clerkship were registered during the month of June as compared with 75 in the previous June.

Institute of Chartered Accountants of Scotland

The Secretary reported the receipt of a letter by the President from Mr R. G. Simpson, President of The Institute of Chartered Accountants of Scotland, advising the completion of the formalities for the amalgamation of the three Scottish Chartered Accountancy bodies. The reply sent to Mr Simpson by the President was approved.

Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees:

Committee	*Chairman*	*Vice-Chairman*
Applications	J. Blakey	G. Adam
District Societies	P. Morgan-Jones	E. D. Taylor
Finance	A. S. H. Dicker	E. G. Turner
General Purposes	H. Garton Ash	G. D. Shepherd
Investigation	J. Blakey	W. H. Lawson
Library	A. D. Walker	P. F. Carpenter
Parliamentary and Law	Sir H. G. Howitt	W. S. Carrington W. H. Lawson

Resignation

The Secretary reported the resignation of:

Mr Stanley Pembridge, A.C.A., New York.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr William Cooper Burkinshaw, F.C.A., Hull.
,, Thomas Farey Chater, F.C.A., Kettering.
,, John Edgar Childs, A.C.A., Ealing.
,, Clifford Walter Cronin, F.C.A., London.
,, Herbert Henry Eastwood, A.C.A., Manchester.
,, Terence Eustace Nierses, A.C.A., London.
,, Thomas Smith Sanders, A.C.A., Oldham.
,, Fred George Smith, A.C.A., London.
,, Vivian John Tucker, A.C.A., Rochester.
,, Alfred Wilson, A.C.A., London.
,, Joe Preston Wood, F.C.A., Burnley.

Mr H. W. Chancellor and Mr G. Sutherland Smith

Mr H. W. Chancellor and Mr G. Sutherland Smith, both Vice-Presidents of the Council of The Institute of Chartered Accountants of Australia, who are on a visit to this country, were received by the Council at the conclusion of its formal business. The President extended to them a hearty welcome, to which Mr Chancellor and Mr Sutherland Smith suitably replied.

NOTES AND NOTICES

Royal Commission on the Taxation of Profits and Income

The Royal Commission on the Taxation of Profits and Income will hold a public meeting on Wednesday, July 18th, to hear further oral evidence on the question whether it would be advantageous to link income-tax with social security payments and contributions. The meeting will be held at 11 Carlton House Terrace, and will commence at 10.30 a.m.

The Institute of Chartered Accountants in England and Wales

Appeal Committee

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to Bye-law 108 of the bye-laws appended to the Supplemental Royal Charter of December 21st, 1948, at a hearing held on June 5th, 1951.

The Appeal Committee heard an appeal against the finding and decision of the Disciplinary Committee of the Council upon the following formal complaints preferred by the Investigation Committee of the Council to the Disciplinary Committee:

That Arthur Harry Greenwood, F.C.A.

(*a*) was at Bow Street Police Court, London, on July 7th, 1950, convicted for defaults in filing returns under Section 342 of the Companies Act 1948 as liquidator of a limited company (in voluntary liquidation) and furthermore was at the Magistrates Court, Kingston-on-Thames, Surrey, on November 1st, 1950, convicted for failure to comply with Section 299 of the Companies' Act 1948, as liquidator of the same company;

(*b*) had been guilty of a default discreditable to a member of the Institute within the meaning of Section 21, subsection (3) of the Royal Charter, in that; (i) having undertaken by letter dated April 2nd, 1950, addressed to the Secretary of the Institute to take definite and prompt steps to put in order all outstanding matters relating to the liquidation of the company, he failed to implement such undertaking; and (ii) having further undertaken by letter dated December 3rd, 1950, addressed to the Secretary of the Institute to take immediate steps to put all matters in order relating to the said liquidation, he failed to implement such undertaking; and (iii) he failed to reply to a letter addressed to him on the said matter by the Secretary of the Institute, dated January 4th, 1951,

so to render himself liable to exclusion or suspension from membership of the Institute.

Having considered the record of the evidence given before and documents produced to the Disciplinary Committee and having heard further evidence given on behalf of the appellant, the Appeal Committee affirmed the finding of the Disciplinary Committee that the formal complaints against Mr Arthur Harry Greenwood had been proved, and the Appeal Committee ordered that Mr Arthur Harry Greenwood of Bank Chambers, 4 Market Place, Kingston-on-Thames, be suspended for a period of six months (such period to run from the 4th day of April 1951) from membership of the Institute.

Gallant Service in Korea

Among awards approved by the King in recognition of gallant and distinguished service in Korea, is that of the Military Cross to Second Lieutenant J. B. Venner, 7th Queen's Own Hussars, son of Mr J. F. Venner, C.M.G., F.C.A., partner in the firm of Edward Moore & Sons, Chartered Accountants, of London. Lieutenant Venner is an articled clerk with the firm.

Personal

MESSRS HODGSON, MORRIS & Co, Chartered Accountants of Liverpool, announce that they have admitted to partnership Mr EDWARD LAURENCE ASHTON, B.A., A.C.A., as from July 1st, 1951.

MESSRS HEATHCOTE & COLEMAN, Chartered Accountants, of 25 Bennetts Hill and 39 Temple Row, Birmingham, 2, announce that they have taken into partnership, as from July 1st, 1951, Mr FRANK WINDSOR SIMS, A.C.A., and Mr LEONARD HARRY CLEAVER, A.C.A. Mr SIMS has been on their staff for the past two years and was previously with the Burmah Oil Co Ltd, both in Burma and in India. Mr CLEAVER joins them from Messrs CHANCE BROTHERS LIMITED, of Smethwick, where he has acted as secretary and chief accountant for a number of years. The title of the firm remains unchanged.

MR KEITH V. C. RIDLEY, F.C.A., and MR PETER G. HESLOP, F.C.A., announce that they have amalgamated their firm of Messrs MARRECO, RIDLEY & HESLOP with that of Mr HENRY SAINER, A.C.A., as from June 1st, 1951. The new firm will be known as RIDLEY, HESLOP & SAINER.

MR S. GRAHAM ROWLANDSON, M.B.E., J.P., F.C.A., of 446 Salisbury House, London Wall, London, EC2, announces that he has taken into partnership Mr HERBERT DESMOND BLAKELEY LAUGHLIN, A.C.A., who has been associated with him for some years. The style of the firm, Messrs S. GRAHAM ROWLANDSON & Co, will remain unchanged.

MESSRS BURTON MILLER, CRANE & Co, Accountants and Auditors, announce that they have removed their offices from 141 Fenchurch Street, EC3, to Clun House, 17 Surrey Street, Strand, WC2.

MESSRS BARTON, MAYHEW & Co announce that Mr A. B. N. MCLAREN, C.A., has retired from their Continental firm (as from July 1st) in order to take up a commercial post in Oporto. The practice in Portugal will be continued by the remaining partners Mr E. R. C. ROSS, F.C.A., Mr IAN S. LESLIE, C.A., and MR GORDON WHITE, A.C.A., Wing-Commander T. P. E. CAMPBELL, A.S.A.A., who has been on the staff of the Continental firm for several years, has been appointed manager of the Oporto office.

MR NORMAN WAUD, A.S.A.A., announces that as from July 1st, 1951, he is being joined in partnership by Mr F. W. HOLLINGSWORTH, A.C.A., and that the firm will practise under the title of NORMAN WAUD & HOLLINGSWORTH at Britannic Assurance Buildings, 20 Blake Street, York. Mr HOLLINGSWORTH is a York man and served throughout the last war in the Army, at home and in India, Burma and Malaya.

MESSRS STOY, HAYWARD & Co, Chartered Accountants, of 22 Upper Grosvenor Street, London, W1, and of 5 Giltspur Street, London, EC1, announce that Mr KENNETH A. JONES, A.C.A., A.C.I.S., Mr CYRIL METLISS, A.C.A., and Mr EDWARD L. LANGTON, A.C.A., who have been associated with the firm for a number of years, have been admitted into partnership as from July 1st, 1951. The name of the firm remains unchanged.

MESSRS WALL & TANFIELD, Chartered Accountants, of 118 Colmore Row, Birmingham, 3, and 196 Wolverhampton Street, Dudley, announce that they have taken into partnership Mr GEORGE WILSON, C.A. The name of the firm will continue unchanged.

MESSRS JOHN G. BENSON & SONS, Chartered Accountants, 27 Grey Street, Newcastle upon Tyne, 1, announce the retirement of Mr JOHN BENSON, F.C.A., on June 30th, 1951.

The amalgamation as from June 30th, 1951, of the firms of Messrs WINTER, ROBINSON & SISSON, Chartered Accountants, 16 Market Street, Newcastle upon Tyne, 1, and Messrs JOHN G. BENSON & SONS, Chartered Accountants, 27 Grey Street, Newcastle upon Tyne, 1, is announced. The combined practices will be carried on under the firm name of Messrs WINTER, ROBINSON, SISSON & BENSON at both addresses.

Obituary

CHARLES EDWARD WAKELING, J.P., F.S.A.A.

We have learned with regret of the death of Mr Charles Edward Wakeling, J.P., F.S.A.A., senior partner in the firm of Charles Wakeling & Co, Incorporated Accountants, of Pomeroy House, Basinghall Street, London.

Mr Wakeling qualified as an incorporated accountant in 1926 and commenced in practice in the City of London in May 1931. He was a Justice of the Peace at Hove and chairman and managing director of the Brighton and Hove Stadium Ltd, and chairman of the Brighton and Hove Albion Football Club. He took a very keen interest in sporting events in Brighton where he was well known for his charitable activities.

In Parliament

STOCK DIVIDENDS: NON-RESIDENT TAX

Mr MOLSON asked the Chancellor of the Exchequer if he will make a statement regarding the remittance of sums to enable United Kingdom investors to pay the non-resident tax on stock dividends.

Mr GAITSKELL: Yes, Sir. Residents of the United Kingdom who receive stock dividends in respect of foreign investments will in future be allowed to remit money to meet any taxes payable on the stock dividends in question so that they can retain the securities without the necessity of selling some of them to cover the tax due.

Hansard, July 3rd, 1951. Oral Answers, Col. 2154.

BANK PASS-BOOKS: INCOME-TAX RETURNS

Mr DRAYSON asked the Chancellor of the Exchequer on what authority the Inland Revenue Department

has asked individuals to produce their bank pass-book when making an income-tax return.

Mr JAY: If the hon. member will give me particulars of any case which he has in mind I will be glad to have inquiries made and to communicate with him in due course.

Hansard, July 3rd, 1951. Written Answers, Col. 200.

EARNED INCOME

Mr DODDS asked the Chancellor of the Exchequer if he will give the net amount of income left after deduction of income-tax applicable to earned income of £10,000, £20,000, £30,000, £40,000 and £50,000 for each of the financial years 1913–14, 1938–39 and 1950–51.

Mr JAY: The following table gives the desired information in the case of a married man with two children.

Income (all earned)	Net income after payment of income-tax and sur-tax or super-tax		
	1913–14	1938–39	1950–51
£	£	£	£
10,000	9,242	5,922	3,684
20,000	18,408	10,009	4,409
30,000	27,575	13,684	4,659
40,000	36,742	17,084	4,909
50,000	45,908	20,484	5,159

Hansard, July 4th, 1951. Written Answers, Col. 226.

Building Societies

A statistical summary[1] prepared from the annual accounts and statements of building societies between the years 1940 and 1950 has been issued by the Registry of Friendly Societies. The summary shows a yearly drop in the number of societies in Great Britain, so that last year's total of 819 societies was 133 fewer than in 1940.

The borrowers, however, have increased – there were 1,507,646 in 1950 compared with 1,442,920 in 1949. Advances on mortgages last year amounted to £270,411,000. Of the 769 permanent societies throughout Great Britain there were 43 with assets exceeding £5,000,000 at the end of 1950.

[1] Building Societies: Statistical Summary 1940–1950, H.M.S.O., 4*d* net.

The Royal Commission: Photograph

In our issue of June 30th last we published a photograph taken during the public sitting of the Royal Commission on the Taxation of Profits and Income on Friday, June 22nd, 1951. We regret that in the caption to the photograph Mr John E. Greenwood, M.A., LL.B., A.C.A., was wrongly identified as Mr W. J. Keswick.

The Institute of Cost and Works Accountants

SUMMER SCHOOL, 1951

The Institute's second summer school is to be held at St Catharine's College, Cambridge, by courtesy of the Master and Fellows, from September 3rd to 8th. The subjects and speakers will be:

Tuesday, September 4th: 'Factory Organization', by F. C. Lawrence, M.C., B.SC.(TECH.), F.C.W.A., A.M.I.E.E., of Paton, Lawrence & Co, Manchester.

Wednesday, September 5th: 'Production Control, with Emphasis on Materials', by Bruce A. C. Hills, M.B.E., B.SC., A.C.G.I., Comptroller of S. Smith & Sons (England) Ltd.

Thursday, September 6th: 'Work Measurement', by D. J. Desmond, M.SC., M.I.E.E., Research Fellow in Engineering Production, Birmingham University.

Friday, September 7th: 'Fourth Element: a case study of the Overhead-to-Factory-Load Relationship', by E. F. Brown, F.C.W.A., Chief Cost Accountant, Ferranti Ltd.

Saturday, September 8th: 'Selection and Training', by J. Munro Fraser, M.A., Controller of Membership Services, National Institute of Industrial Psychology.

As at the previous school, the system of group discussion upon the papers is to be adopted, the school reassembling later in the day for the presentation of group reports to the speaker, who will reply to the general discussion. There will be only one session a day (instead of two, as last year), and this will permit a longer period for discussion in rooms, as well as rather more free time during the afternoons.

There will be a formal dinner in Hall on the last evening (Friday, September 7th), when a number of distinguished guests from the University, industry, and the profession are expected to be present.

The list of applications for places at the school is still open. The charge, inclusive of accommodation from Monday afternoon to Saturday afternoon, is £8 8*s*.

The New Zealand Society of Accountants

A complete report of the proceedings at the Sixth Convention of the New Zealand Society of Accountants, which was held at Auckland from February 23rd to 28th, 1950, has been issued by the Society.

The six papers given during the technical sessions, and also the discussions on these papers, are reported in full.

Assistant Official Receivers Appointed

The Board of Trade have made the following appointments:

Mr Alec Henry Horler to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Aylesbury, Brentford, Chelmsford, Edmonton, Hertford, St Albans and Southend, with effect from June 1st, 1951.

JOHN FOORD & COMPANY
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Mr Harold Clifford Gill to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Manchester, Salford, Ashton-under-Lyne and Stalybridge, Bolton, Oldham, Rochdale and Stockport; for the Bankruptcy District of the County Courts of Preston, Blackpool, Blackburn and Burnley; and also for the Bankruptcy District of the County Courts of Hanley and Stoke-on-Trent, Crewe and Nantwich, Macclesfield, Stafford, Shrewsbury and Newtown, with effect from June 4th, 1951.

Mr Wilfred Whitehead to be Assistant Official Receiver in the Bankruptcy (High Court) Department, with effect from June 11th, 1951.

Mr Walter William Jordan to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Birmingham, Walsall, West Bromwich, Wolverhampton, Worcester, Coventry, Warwick, Hereford and Leominster; also for the Bankruptcy District of the County Courts at Dudley, Kidderminster and Stourbridge, with effect from June 11th, 1951.

Mr Cyril Charles Ferris Hannaford to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Manchester, Salford, Ashton-under-Lyne and Stalybridge, Bolton, Oldham, Rochdale and Stockport; for the Bankruptcy District of the County Courts of Preston, Blackpool, Blackburn and Burnley; and also for the Bankruptcy District of the County Courts of Hanley and Stoke-on-Trent, Crewe and Nantwich, Macclesfield, Stafford, Shrewsbury and Newtown, with effect from June 18th, 1951.

Australasian Commentary – I

We are advised by Mr S. R. Brown, LL.B., F.C.A., (AUST.), author of the article entitled 'Australasian Commentary – I' in our issue of June 23rd last, that in the first paragraph under the sub-heading 'Break-even Analysis' (on page 616) the word 'cannot' appears instead of 'must'. The relevant phrase should therefore read:

> '... it is to be remembered that a sound structure of managerial controls *must* include many components in addition to break-even analysis.'

Recent Publications

THE A B C OF THE FOREIGN EXCHANGES, Eleventh Edition, by Norman Crump. viii+403 pp. $7\frac{1}{2}\times5$. 12*s* 6*d* net. Macmillan & Co Ltd, London.

THE ACCOUNTING MISSION, by F. Sewell Bray, F.C.A. vi+89 pp. $9\times5\frac{1}{2}$. 15*s* net. Cambridge University Press, London

Chartered Accountants' Golfing Society

The annual match for the Wood Cup played against the Golfing Society of the Association of Scottish Chartered Accountants in London, took place at Sunningdale Golf Club on Thursday, June 28th.

The Scottish Chartered Accountants regained the cup by a difference of five holes and the best six returns which counted for the match were as below:

Prizes were presented by the two societies for the best returns on each course and the winners were:

Old Course:

J. G. Brown and J. E. Walker	1 down
J. R. Beresford and J. B. P. Williamson	1 down
C. M. Daniel and W. O. Newcomb	1 down

Messrs Brown and Walker won the first prize on the best score over the last three holes and Messrs Beresford and Williamson won the second prize.

New Course:

H. D. Nicholson and R. G. Pegler	1 up (first prize)
D. Galloway and A. Inglis	All square
C. G. Gairdner and J. Robertson	All square

Messrs Galloway and Inglis won the second prize on the best score over the last nine holes.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 15TH, 1876

Extract from a leading article

The Social Element

Why should there not be an accountant's club in London? All that has been said in favour of literary and other clubs might with equal justice be said of it. Accountants seldom have the opportunity of meeting each other except on purely professional terms, or when some great question requires consideration. It would be a great convenience, therefore, to have a common resort where minor subjects connected with the profession could be informally discussed. To country accountants a London club would yield advantages that can scarcely be overrated; indeed, it is difficult to see in what respect it would operate otherwise than beneficially to the whole profession. Those of its members whose age and long professional career give their influence quite a paternal character, would be able to guide and direct the headstrong energy of youth which sometimes outruns discretion; and the strength and ability, thus guided, might be hoped to elevate the science of accounts to a professional status as honourable in the eyes of the world as it is indispensable to the well-being of the commercial community.

SCOTS G.S.	Old Course	New Course	Total		C.A.G.S.	Old Course	New Course	Total
D. Galloway and A. Inglis	−4	sq.	−4	*v.*	H. D. Nicholson and R. G. Pegler	−3	+1	−2
C. G. Gairdner and J. Robertson	−6	sq.	−6	*v.*	C. M. Daniel and W. O. Newcomb	−1	−7	−8
J. G. Girdwood and J. Thomson	−3	−3	−6	*v.*	J. R. Beresford and J. B. P. Williamson	−1	−8	−9
T. Douglas and R. M. Brown	−4	−5	−9	*v.*	B. J. Ashurst and A. E. Whitcomb	−4	−6	−10
R. K. Graham and D. W. Ness	−7	−3	−10	*v.*	R. A. Daniels and L. V. Mills	−5	−5	−10
E. F. Milne and D. H. Steven	−8	−3	−11	*v.*	W. J. Leeming and J. R. Darby	−5	−7	−12
			−46					−51

MOTOR — FIRE — CONSEQUENTIAL LOSS

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The Accountant
ESTABLISHED 1874
JULY 21ST 1951 VOL. CXXV NO. 3996

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ESTATE DUTY AND THE FAMILY BUSINESS

AS one result of complaints about the effect of high estate duty on private businesses, the Board of Inland Revenue undertook a statistical investigation into the extent to which non-trade assets in fact proved insufficient to pay the duty on the death of the owner of the business. The report of this investigation has now been published.[1] It recalls that the Board made a similar investigation covering the year 1922 which was covered by the report of the COLWYN Committee on National Debt and Taxation, in 1927.

The present investigation covers estate duty arising in 1948, with an adjustment to give effect to the present scale of rates, but disregarding the rapid rise since 1948 in all prices, especially of trading assets. The report says that of the sample estates exceeding £10,000, less than 1 per cent were unable to meet all the duty out of non-trade assets, that is, half the proportion of similar estates in 1922. It admits, however, that £10,000 then would be worth much more than now. Assuming it were worth £20,000, the percentage would have doubled instead of having fallen by a half. This is perhaps the point to stress the fact, not mentioned by the report, that a steeply graduated tax bears with particular severity in times of inflation.

The report is at pains to point out that only one-fifth of this 'less than 1 per cent' covered manufacturing businesses – presumably a reply to the memorandum on the subject which was submitted by the National Union of Manufacturers. The point is made that insufficiency of non-trade assets does not necessarily mean the end of the business; that money can be raised by selling a minority interest to the public, selling part of the deceased's shares, or obtaining a loan from the company in question. Finally, the report asserts that, although a sample investigation may well fail to reveal individual hardship, no case has been produced to show the actual break-up of a business by estate duty.

Perhaps the answer to this is that such a dramatic result as a break-up is in any case highly unlikely. Toll is exacted on the value of goodwill, an asset which the executors would not deliberately destroy. Disaster is usually averted by timely arrangements which often have undesirable concomitants. Much of the trouble is psychological; an able business man may feel that since he cannot bequeath his entire business to his son, there is little point in building it up; sons who see themselves destined to remain mere employees because a large share of the business will have to be sold, are not encouraged to exact themselves. Such cases represent the loss of much productive effort.

[1] 'Estate Duty and Family Businesses' (Cmd. 8295). H.M.S.O. 6*d* net.

[P]URCHASE RECORDS

ONE of the problems which continually confronts accountants, whether in practice or in industry, is how to combine speed with accuracy. Both qualities are essential if output is to be at the same time economic and efficient. The difficulty usually arises in determining the relative degree of importance of each, for the ratio varies according to the type of work on hand. For example, the quick production of the four-weekly or monthly trading accounts of an industrial company is vital and to attain this, some measure of accuracy, within limits, may have to be sacrificed. The annual financial accounts, on the other hand, should above all be accurate, even if it takes a little longer to produce them.

Our correspondence columns recently contained a selection of letters from accountants in industry on the question of the time taken to prepare the monthly trading accounts. In more than one instance, mention was made of the delay caused by the slowness on the part of suppliers in rendering their invoices. Various improvisations are in use to overcome this difficulty and today we publish a cautionary letter from a correspondent protesting against possible dangers of one method employed, that of recording provisional figures in the company's books. His case briefly is that such unorthodox practice weakens the internal check against unauthorized payments.

While this theory may appear perfectly reasonable on paper, it has been found that in actual practice there is little danger of defalcations, provided that due care is exercised. The custom of passing the invoices of regular suppliers for payment as soon as the purchase department has been notified of the receipt of the goods is common in America where every effort is made to secure the special discounts offered for prompt settlement. If some shortage or defect is discovered on inspection of the goods, the supplier is notified and a credit note obtained even although the goods have already been paid for in full. In the case of new suppliers, payment may be deferred until the goods have been inspected, but for the purpose of the monthly trading account, an estimate of the total of such purchases is easily obtained. Undue delay in aggregating these should be avoided, for while they have a bearing on the ratio of the company's liquid resources to its current liabilities, they do not affect the trading outcome, the speedy ascertainment of which is, it should be remembered, the main object for producing monthly accounts.

Our correspondent mentions the fact that in the system he describes, no bought ledger is kept. Wherever unpaid items are posted to the nominal ledger, some corresponding record of accounts outstanding must, of course, be maintained. In many instances, however, the form of the record of personal accounts has changed, the traditional tome having been superseded by something more compact but no less comprehensive in character. Where the accounting system has been mechanized, each supplier has a ledger card which is written up and balanced automatically as each transaction, cash or credit, is recorded in the book of original entry, thus eliminating much of the toil of posting and proving associated with the hand-written bought ledger. A variant, for manual systems, is the voucher envelope. There is one for each supplier and in it are collected his invoices and credit notes, the details of which are recorded on the outside along with cash payments made. This method of recording is particularly suitable for a business with predominantly the same regular suppliers and with accumulations of invoices for monthly settlements.

Whichever way of keeping suppliers' records is adopted, the usual internal safeguards against fraud must always be employed. A control account should be kept to prove the arithmetical accuracy of the balances outstanding. Clerical work at all stages of the transaction should be carefully delegated. If possible, the certification of invoices, the maintenance of the bought ledger, the preparation of payment advices and the drawing of cheques should be four distinct functions, carried out by separate employees. In cases where, as outlined above, invoices are passed for payment on receipt of goods but before inspection, a list of approved suppliers authorized by the management should be made available to the employee who certifies the invoices and also to the employee who prepares the payment advices, both of whom should be senior members of the staff. If some routine duties have to be duplicated, then supervisory control from a higher level must be intensified.

BALANCE SHEETS IN WONDERLAND

by ANGUS MACBEATH, C.A., A.C.W.A.

(with ackowledgments to Lewis Carroll)

I WAS sitting on a hard wooden chair studying for the *n*th time the provisions of the Sixth Schedule of the 1949 Finance Act, and vainly endeavouring to prevent myself from nodding occasionally, when Alice came into the room. It was always a tonic to see Alice; she was so bright and fresh in her own quiet way and never seemed to worry about anything.

'Hullo, Alice, have you come to ask me to go for a walk? I would prefer the flowers of spring to the straight-line method of wear and tear.'

Wonderland Ltd: Annual General Meeting

'Oh, Uncle Mac, it was not just an ordinary walk I was going to suggest. I have been invited to attend the annual general meeting of Wonderland Ltd and to bring a friend. Would you like to come with me?'

After a momentary grimace at the business nature of the proposition it occurred to me that an annual meeting in Wonderland might have some novel features.

'Thank you, Alice, I should be delighted to come. When is the meeting?'

'If we start off now we shall just be in time.'

So Alice led me down the garden path to the little gate at the bottom and, taking hold of my hand, opened the gate and led me through.

'Welcome to Wonderland', said a deep, respectful voice. Looking up in surprise I saw the Cheshire Cat grinning down at me and nodding his head; then gradually he faded from the bough on which he had rested.

'This way', Alice called to me. I followed her as she wended her way sure-footedly between the trees until we came out on an open space where we found a large round table set in the middle of a lawn which lay in front of an ivory castle. Several persons, whom I recognized immediately, were standing around in little groups, talking.

Hardly had we emerged from the trees than I heard a voice say 'Take your seats please, ladies and gentlemen, the Queen approaches.'

Alice hurried me over to the table and we took two of the places.

'The Queen!'

We all stood while the Red Queen took her seat. Alice whispered to me that the Queen was chairman of the company.

When we were seated again, a hum of conversation broke out and I noticed on the table in front of me a set of accounts. I picked them up and read:

WONDERLAND LTD
Accounts, March 31st, 1951

I pondered these accounts, balance sheet, consolidated balance sheet, consolidated profit and loss account, directors' report and auditors' report.

'Alice, look. The auditors' report is signed on the day after the accounts are made up. How extraordinary.'

'Oh no, not extraordinary. The audit takes only a few hours because no one ever makes a mistake.'

'No one ever . . . impossible!'

Alice gave me a gentle smile as she replied, 'Nothing is impossible in Wonderland.'

The Meeting Commences

The Red Queen rose and the conversation hushed. 'The secretary will read the notice calling the meeting, the report of the auditors, and the minutes of the last annual meeting.'

The March Hare stood up and read so quickly that I could catch only a word here and there, However, everyone seemed satisfied, and the minutes were approved.

'Now we come to the annual accounts and, since I never could abide figures, as you all know, I shall call on the chief accountant to explain the results of the year to you.'

There was some warm clapping as the Jack of Hearts stood up, bowed, and began:

'Your Majesty, ladies and gentlemen. You will see from the report of the directors that the profits for the year amount to £228,475. . . .'

Immediately there was a babel of voices. 'That's not the figure in my accounts'; 'My profit is different'; 'You have more than me'; 'It says £318,250 here'; were some of the remarks which I distinguished, and I was surprised to find that the accounts which I held myself showed a loss of £250 for the year.

The Jack of Hearts, however, was still smiling. 'I can explain all the differences', he said. 'This year we have allowed each of the accountants in Wonderland to prepare a set of the accounts in his own way and, curiously enough, each set of

accounts shows a different figure of profit – in fact, one set actually shows a loss for the year.'

'How peculiar', said the Caterpillar, pausing in smoking his hookah, 'why can one set of accounts have so many different profits?'

Fixed Assets

'The easiest way for me to explain is to take each item in the balance sheet in turn', smiled the Jack of Hearts. 'First we have fixed assets which are shown in my accounts as cost, depreciation, net, and the depreciation is calculated on the cost prices. Now in your accounts, sir', and he looked at the March Hare, 'depreciation is calculated on the written-down values, while in yours', looking at the Lobster, 'instead of cost price you have the written-down value at July 1st, 1948, plus additions since at cost, so your charge for depreciation is also different from mine. Your balance sheet', now it was Alice's turn, 'has the fixed assets at a valuation made on July 1st, 1948, plus additions since at cost, so your depreciation charge is higher than mine. Your accountant, sir', he looked at me, I thought, somewhat sternly, 'has a bee in his bonnet over the use of replacement values, therefore you have the fixed assets valued at the approximate current cost of replacement and, in consequence, the charge for depreciation and replacement is . . . well . . . terrific.'

(Murmurs of sympathy from the members.)

The Jack of Hearts passed on and I listened rather than watched. 'In your accounts, depreciation is charged on the straight-line basis on cost, so it is smaller this year than mine. Loose tools have been omitted in your balance sheet; in mine they are included at a valuation. Goodwill is being written off by ten equal annual instalments. So much then for the fixed assets.'

At this point the Dormouse was discovered to be turning his accounts upside down and over and over, and to be making curious muttering noises. 'Oh', said the Jack of Hearts, hurriedly, 'I should have explained that in your balance sheet the net value only of the fixed assets is shown: the details are given on a separate page.' The Dormouse found the proper page and peace reigned again.

Stock-in-trade

Now the Jack of Hearts came to the stock!

'In my accounts the stocks are valued at cost or market value, whichever is the lower, while in your accounts', he looked at one of the members, 'the basis of valuation is the same but the "cost" of finished stock and work in progress is arrived at by taking percentages off the selling prices, and the "market value" of old stock is a different guess from the one I used.'

Speaking to other members in turn, he continued, 'The accountant who prepared your accounts is a firm believer in LIFO so that much of your stock is valued at the cost prices of several years ago.

'Your accountant is one of the older school and uses FIFO in his accounts. All your low-priced stock has gone and your stock values are much higher than my average cost.

'In your accounts the stock is valued by taking the basic stock quantities which the company will always require to have in order to keep going, and applying to that basic stock the cost prices of a year regarded as normal. Stocks in excess of basic are valued at current cost.

'Standard costs are insisted upon by the accountant who prepared your accounts, and his view is that if the costs are in excess of the standards which he has fixed, those excesses must be due to something having gone wrong in the period, and should therefore be written off in the period. So all your stock is valued at the standard cost values and any losses due to bad manufacturing or reduced production have been written off and not carried forward in the stock values.'

While these explanations were proceeding I found to my astonishment that I was growing gradually smaller. Now I heard a voice ask:

'Which method of valuation is the correct one?'

The Jack of Hearts smiled towards me. 'Alice has brought along her uncle who is a chartered accountant. Perhaps he will be so good as to tell us which method is the correct one?'

'I could feel everyone's eyes on me – I felt smaller than ever. I cleared my throat.

'Well . . . er . . . ah . . .'

'Thank you, sir,' said the Jack of Hearts, 'that was exactly the reply which I expected. Now we come to the debtors.' And on he went.

Other Assets

'In your accounts, 2½ per cent of the balances has been provided for bad and doubtful debts, while in your accounts the provision is 5 per cent, and in your balance sheet the provision is made on specific debts only. The accountant who made up the secretary's accounts has not provided for bad debts at all as he has charged against profits the insurance premium payable to cover the company against any loss.

'In my accounts the quoted investments have

been included at cost while in yours the investments have been written down to the market quotations at the balance sheet date.

'Two of the trade investments have been written off in your accounts as being of no value.

'Those, Your Majesty, are the main differences on the assets side of the balance sheet', and the Jack of Hearts bowed to the Queen.

'Dear me, is that only the one side?' the Red Queen tapped the table in annoyance, 'I think we should have the coffee now.'

No sooner had the Queen said this than the doors of the ivory castle opened, out stepped servants carrying trays, and we each received a steaming hot cup of milky coffee and two delicious cream cakes.

'Are you enjoying it, Uncle Mac?' asked Alice, and I was surprised to find that she was now almost as large as I was.

'Yes, thank you', I replied, 'It is a most unusual meeting. I hope the dividend will be as good as the coffee.'

When the coffee was over the Jack of Hearts rose again. 'Shall I continue, Your Majesty?'

The Red Queen waved her hand in consent.

The Liabilities – Taxation

'Now we come to the liabilities.' The Jack of Hearts was obviously enjoying himself. 'Income-tax has caused some differences. You will remember that when the standard rate was increased from one penny in the £ to twopence' – I was feeling smaller than ever – 'we went over from charging on the average profits to charging on the profits of the previous year. In your accounts', he looked at Tweedledum, 'the tax has been provided on the full profits up to date, while in yours', he looked at Tweedledee, 'the tax provided is the legal liability only, that is the tax due up to the date of the accounts.'

Tweedledum and Tweedledee looked at each other out of the corners of their eyes but remained silent.

'You will notice also that in some accounts the future income-tax is shown as a reserve and in some as a provision.'

'It's a reserve!' said Tweedledum.

'It's a provision!' said Tweedledee.

They both then started to explain in turn why it was a reserve, or a provision, until the Red Queen called 'Silence!' then they turned to each other, formally shook hands, and announced that they must have a fight.

A fight having been agreed to by the meeting, the contestants were prepared for the battle.

The only armour which could be found consisted of books from the accountant's library.

Tweedledum had the volumes of Simon's *Income Tax* tied round him with red tape, surmounted by copies of *Man and Superman*. Tweedledee had tied round him bound volumes of *Hansard*, surmounted by copies of *Holding Companies and their Published Accounts*. In order to provide adequate protection for their heads, Tweedledum had fixed on his a copy of *Income Tax Acts*, 1949, and Tweedledee had a copy of Dicksee's *Auditing*, while as weapons, Tweedledum relied on a fountain pen, and Tweedledee had a Biro.

They were about to engage in combat when a black shadow overcast the gathering and a shout was heard – 'The Crow!' As the big black crow came flounding down, Tweedledum and Tweedledee were seen to be in full flight from the scene leaving behind them, unsettled, the argument on the treatment of future income-tax in the balance sheet.

After this interruption the meeting resumed and the Jack of Hearts continued, 'The only remaining differences are in the provisions. Thus your accountant' – it was the Dormouse again – 'tries to be as exact as he possibly can while yours' – the Lobster this time – 'adds a bit more just to be on the safe side.

'The result of all these differences is that in Your Majesty's accounts there is a profit of £325,500, while in your accounts', here he looked at me, 'there is a loss of £250.'

Summing-up

'Goodness, how strange', said Her Majesty, 'which set of accounts should we adopt?'

'Perhaps our friend could help us again?' and the Jack of Hearts looked towards me.

I was still growing smaller and smaller and, hunting around in desperation for something to say, I managed to call out 'The Institute's Recommendations'.

Immediately the Red Queen shrieked 'Meeting adjourned!' the sky clouded over; I found myself growing larger again; all the members disappeared leaving only Alice and me; and out of the sky cards started to fall and to pile up in a neat little heap on the table. I noticed that the Jack of Hearts lay on top and he did seem to have rather a cynical smile.

'Shall we go home now?' asked Alice, and we set off together back the way we had come.

'Come and visit us again, sir', said the Cheshire Cat when we reached the gate in the hedge.

'Thank you very much', I replied, and bolted, rapidly, thankfully, into the garden.

AUSTRALASIAN COMMENTARY–II

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

Capital Issues Control

IT is pointed out in the June issue of *The Australian Accountant* that the Commonwealth Treasurer has emphasized that capital issues control was reintroduced in February 1951 for the main purpose of conserving resources for defence needs, urgent national developmental projects, and essential civilian requirements. These regulations are too extensive to summarize here in any detail but one point of interest is that they allow a company to raise only £10,000 in any two years by the issue of ordinary shares, without the consent of the Commonwealth Treasurer. Consent is required for an excess of that limit, or for any issue of preference shares, or for any bonus share issue in capitalization of any reserve created after September 1st, 1939, by a writing-up of assets. Loans and mortgages are also covered by the regulations.

Fixed Asset Replacement

In an editorial in the March issue of *The Accountants' Journal* of New Zealand, it is argued that approved taxation allowances may be reasonable in periods of stable prices but are quite inadequate when prices are rising steeply. If production is to be maintained, fixed asset replacement is essential and such replacement should be financed from accumulated income. The conclusion is that if new capital has to be introduced for replacement it would mean that in past years some of the real capital has disappeared in taxes or dividends.

Similar views were expressed by Mr C. C. Holland, F.P.A.N.Z., in his presidential address to the annual meeting, reported in the same issue. Looking ten to fifteen years ahead, he saw higher prices and many difficulties for accountants on the question of asset replacement.

Audit of Stock-in-trade

The recommendations of the Victorian Research Society of The Institute of Chartered Accountants in Australia, mentioned in the last commentary, have produced numerous expressions of opinion as to their worth. Mr R. A. Irish, chartered accountant, of Sydney, who has written a standard text on auditing, was moved by criticism of the recommendations into setting down certain views. Whether we like it or not, he said, the opinion of financial people such as stockbrokers and investors is that the auditing profession has fallen down on its job. He submitted it, as his opinion, that any practitioner in Australia who contented himself with a mere arithmetical check would run a grave risk in the event of any legal action being taken on this question. Mr Irish thinks that there should be no bogy about an auditor being a layman as regards technical stock, because he can attend the store and ask the hands.

What appears to be a general summing-up of an auditor's duty was given by Mr Irish in these terms:

> '. . . what he is expected to do is to see that the stocktaking instructions are sound and explicit, to observe by tests that they are carried out, to devote no little time to comparison of inventories with stock records, cost records and the like. In short, he is expected to examine the problem intelligently and satisfy himself that everything possible has been done to ensure a correct statement of the value of stock-on-hand'.

(*The Chartered Accountant in Australia*, March.)

'Take Counsel's Opinion'

As one might imagine, these views did not pass unchallenged. An anonymous 'Fellow' attacked both Mr Irish and the Victorian Research Society, and pointed out the impossibility of doing all that was suggested. We should educate stockbrokers and investors by telling them the truth, which is that auditors are incompetent to be judges of the value of stock-in-trade. Instead of publishing 'semi-legal' views by accountants, he said, the Research Co-ordination Committee of the Institute should take counsel's opinion on the legal aspect. And, he asked, why wait until the unfortunate charge is made against some auditor of negligence in not discovering that the value of stock-in-trade had been inflated? He presumes that the Court would base its decision on the evidence of various accountants and thinks that the majority opinion would be in favour of asserting that an auditor takes no responsibility for values and quantities of stock-in-trade. (*The Chartered Accountant in Australia*, May.)

Company Annual Reports

The Sydney division of the Australian Institute of Management recently made an award for the best annual report of 1950. The purpose of the award was to encourage better annual reports so as to (1) make known the important place of private enterprise in the community; (2) encourage the dissemination of information about company activities among shareholders and others, in a form understandable by those without business training; (3) endeavour to establish better employer–employee relations.

In a review of the award, Mr E. S. Owens, chartered accountant, of Sydney, presents some interesting information, based on the winning entry and twenty merit entries. All twenty-one companies gave figures to the nearest £, and used distinctive covers for the reports which were printed in two or more colours. Fifteen companies used charts for analysis, while eleven used vertical balance sheets and accounts. Sales figures were disclosed by seven companies but only three used explanatory notes in the balance sheet and accounts. (*The Secretary in Australia and New Zealand*, April.)

Test Checking

In the discussion on a paper styled 'Test checking and sampling', presented by Mr K. H. Vial, chartered accountant, of Melbourne, to an accounting congress in Victoria, members expressed the opinion that the greater use of test checking must have considerable repercussions on staff questions. They felt that, in the main, higher educational standards would be required and there was a danger that intermediates and juniors could not be used to any great extent on the important work of selective test checking. The training ground for juniors could possibly be restricted to complete audits conducted for small businesses. (*The Chartered Accountant in Australia*, May.)

Should our Leading Cases Still Lead Us?

At a congress in Queensland held in June, Mr T. A. Hiley, a past-President of The Institute of Chartered Accountants in Australia, presented a paper which reviewed some of the cases which have influenced accounting practice. He was concerned to consider how far the cases were appropriate guides for the present, having regard to improvements in the company statute and to the increasing number of institutional pronouncements indicating the best practice.

In his opinion the dicta in *Newton v. Birmingham Small Arms Co Ltd* and *Young v. Brownlee* (containing judicial approval of secret reserves) could not now be followed with safety. He claims: (1) that the present view is against the building up of secret reserves by the writing down of fixed assets artificially, but that (2) there is no obligation to revalue fixed assets which have in fact appreciated. Both of these propositions are also put forward by the editors of *Buckley* (twelfth edition) in their annotation of paragraph 5 of the Eighth Schedule of the English Companies Act, 1948. There is this to be noted, however, that *Buckley*'s editors appear to rely upon the dicta of Buckley, J., in *Newton*'s case for the second of the propositions referred to. On the question of utilizing the 'profit' arising on a revaluation, Mr Hiley thought that no accountant or auditor should consider approaching a bonus issue following the write-up without the full examination by and advice from the company's legal advisers.

In respect of the *Royal Mail* case, Mr Hiley pointed out the danger of relying upon it in view of the changed character of the expert evidence which would probably be adduced today. He thought that *Bolton v. Natal Land and Colonisation Co* (held unnecessary to depreciate land, part of circulating capital, which had declined in value) appeared to be erroneous, and that the distinction between fixed and floating assets in *Verner v. General and Commercial Investment Trust* and in *Wilmer v. McNamara & Co Ltd* is opposed to modern practice.

Company Financial Statements

The director's report is a means of conveying financial information to members of companies in a manner which those who have little knowledge of accounting can understand, said Mr R. K. Yorston, chartered accountant, of Sydney. He pointed this out in the course of an address on company financial statements given at the Queensland congress mentioned above. Mr Yorston considered that information given in the revenue statement and balance sheet tends to become stereotyped and in the majority of cases only the statutory requirements are fulfilled. He also thought that greater use should be made of the statement of source and application of funds for both internal analysis and external presentation. The way he referred to the relation of these statements was this: A balance sheet is a connecting link between two successive revenue statements (a bridge over which may be carried unabsorbed costs which are to be allocated against the revenues of succeeding accounting

periods) whilst a funds statement is a connecting link between two successive balance sheets.

Internal and External Audits

After a discussion of the relationship between these types of audits, Mr H. W. Harris, Fellow of the Federal Institute of Accountants, ended with three recommendations. Firstly, he thought that professional auditors should not have to resort to 'annexing' the internal audit in order to ensure that they can carry out the audit at a profit to themselves. Secondly, only qualified accountants, licensed as companies' auditors, should be appointed internal auditors, and they could be sworn so as to give them a status similar to that of sworn valuers. This latter requirement would enable the external auditor to place more authority in their reports and findings. Lastly, he suggests that these recommendations become legal requirements by incorporation in the Companies Act. (*The Federal Accountant*, May.)

'Oo'

An anonymous writer ('Attic') in the June issue of *The Australian Accountant*, has contributed an article on a new ledger account called 'Oo'. He says, 'Oo' takes care of the shillings and pence, the pounds take care of themselves. The writer describes a method of using this account in order to eliminate shillings and pence below ten shillings and to carry amounts containing shillings over ten in number to the next higher pound. In the set of figures he uses, three accounts require to be reinstated in their broken amounts – bank, debtors and creditors – and he shows how this is done by a simple journal entry.

WEEKLY NOTES

The Society's Examinations

In the examinations of the Society of Incorporated Accountants and Auditors held last May, the results of which appear elsewhere in this issue, six candidates were awarded honours in the Final, the First Certificate of Merit and First Prize being won by Mr Reginald Percy Stevenson, of Ilkeston. The Second Certificate of Merit and Second Prize were awarded to Mr John Harvey Hunt, of Portsmouth; the Third Certificate of Merit and Third Prize to Mr James Patrick Seymour Edge-Partington, of London; the Fourth Certificate of Merit to Mr Thomas Henry Webster, of Morecambe, and the Fifth and Sixth Certificates of Merit to Mr Kenneth Cook Smallwood of Middlesbrough and Mr Senapur Panduranga Acharya, M.COM., of Bombay, respectively. Of the 610 candidates who sat for the Final, 195 (32 per cent) were successful. In the November 1950 Final, the successes were 298 (52 per cent).

In the Intermediate, there were 785 candidates, of whom 348 (44 per cent) were successful; nine candidates were awarded honours. The First Place Certificate and First Prize were gained by Mr Stanley William Willson, of Birmingham; the Second Place Certificate and Second Prize by Mr Gerald David Breton, of Leeds; and the Third Place Certificate and Third Prize by Mr Thomas Alfred Fuller, of Kingston-on-Thames. The November 1950 figures for successes were 317 (48 per cent).

In the Preliminary, 138 candidates sat, of whom 42 (30 per cent) were successful. The November 1950 figure for successes was 37 (36 per cent).

The *Olivier* Case

That a payment to an actor under a restrictive covenant extending over only eighteen months can be a non-taxable capital receipt has been established in *Higgs v. Sir Laurence Olivier*, reported in *The Times* on July 12th, 1951. Under an agreement with Two Cities Films Ltd, Sir Laurence produced, directed and acted in *Henry V*, a film which first began to be exhibited in December 1944. To protect the exploitation of this film, Sir Laurence covenanted in July 1945 not to take part in any film in the following eighteen months other than for the company, the consideration being £15,000. The Special Commissioners upheld his appeal against the inclusion of this sum as a taxable profit of his vocation, They found that it was paid to him for refraining to carry on the vocation and was a capital receipt. Mr Justice Harman, after remarking that the circumstances were very special, said that there was evidence on which the Special Commissioners could find as they did and declined to interfere.

Profits Tax

Another decision in the Revenue Paper concerns profits tax. This is *Lamson Paragon Supply Co Ltd v. C.I.R.* (*The Times*, July 14th, 1951) which in the first place confirms the correctness of the practice of treating a distribution out of untaxed capital profit as being nevertheless a distribution for profits tax purposes. In March 1947 the company resolved to pay a dividend out of past capital profit by the distribution to the members of shares held by the company. It claimed that this constituted a dividend expressed to be paid in respect of its accounting year ended January 31st, 1947. The Special Commissioners rejected both this contention and the contention that the payment was a dividend at all. Mr Justice Harman, dismissing the company's appeal, held that although the payment was a dividend it was not expressed to be paid for the period mentioned.

These two decisions will be dealt with more fully in a later issue.

Fraud by Director

A former chairman of Darwins Ltd, Dr Narayna Das Chopra, was at Leeds Assizes on July 16th, 1951, convicted on four charges of fraudulently applying for his own use certain chattels belonging to the company, and received a sentence of twelve months' imprisonment on each charge. He was also convicted on the charge that with intent to defraud he caused a cheque for £4,000 to be delivered to Barclays Bank, London, for his own use by falsely pretending that he was the owner of certain patents and secret processes, and that he placed them at the disposal of Rabon Ltd and Darwins Ltd, and that the use and enjoyment of the same by these companies justified a credit in his favour of £7,000. On this charge he received a sentence of three years' imprisonment. All the sentences are to run concurrently.

According to the report of the case in *The Times* of July 17th, 1951, Mr Justice Streateild said in the course of his summing up that the jury must remember that directors, however excellent they might be in most ways, sometimes were guilty of feathering their own nests and perhaps the nests of their friends at the expense of a company. They had heard evidence of the most lavish expenditure on entertaining and of high living. It might be high time that it was brought home to directors and auditors that the wholesale unloading of extravagant expenses on to public companies which was completely unjustified might well amount to fraud on shareholders, creditors or the Revenue. There were many cases where that might well be said, but despite the evidence of lavish expenditure in this case, there was no evidence that it was a case of that nature.

Unilever and Price Maintenance

The chairman of Lever Brothers and Unilever, Sir Geoffrey Heyworth, had some authoritative views to express on distribution problems at last week's shareholders' meeting. He pointed out that there seems to be a popular misconception that distributive costs are less justifiable than production costs. They are, in fact, in many ways of the same nature – such as holding stock, transport costs and office overheads. The division between the two is indeed often blurred and heavier outlay on distribution costs may be justified on the grounds alone of lower costs of production gained by the larger market for the goods, say by outlay on advertising. There is indeed no basic 'fair' price which can be charged for retailing. It depends on the service which is rendered. It is therefore wrong to say that a certain retail margin is too high without examining the functions which are performed by the wholesaler and retailer concerned.

There is scope nevertheless, said Sir Geoffrey, for economies to be made in distribution, although care must be taken not to prescribe reforms which severely reduce the choice of the consumer. It must be realized that choice and the accompanying flexibility in the retail trade are maintained at a cost. The chairman went on to say that his own company favoured resale price maintenance although in quoting Unilever's experience he pointed out that it fixed prices for brands with retailers and not with other manufacturers.

Scope for improvement in efficiency could be found, he thought, in a better 'trade' education of the retailer and in more and better statistics. A major contribution could come from trade itself by a closer study of retailing problems, giving the same concentration to studies of business problems as is done on the production side.

Steel Production Maintained

Last week the British Iron and Steel Federation announced that output for June was at the annual rate of 16 million tons. This can be compared with 15·9 million tons for May and gives an annual rate for the first half of this year of 16·3 million tons. The June figure is about 50,000 tons above that for June last year.

The next three months will see a drop in output as the holiday season comes in. Thereafter, production will recover through the fourth quarter. Not till then will it be possible to say whether the drive for steel scrap among home industry has been successful enough for the industry to reach the lower target of 16 million tons set for the industry for the whole of 1951. Meanwhile, on present performance, the auguries are not discouraging.

High Rayon Output

Production of rayon continuous filament and staple fibre was higher during May than at any time since the last quarter of 1950. This performance is all the more noteworthy since it had been expected that the shortage of sulphuric acid would cause a drop in production of the order of 20 per cent.

In the event the industry has been able to step up output rather than reduce it. This has been possible by drawing on stocks of materials and by concentrating on those fibres which use comparatively little sulphuric acid. It remains to be seen whether these temporary measures are sufficient to tide the industry over the period while supplies of this essential chemical are limited. To have achieved a level of output of 32·2 million lb. in May compared with 31·4 million the month before – and even less in the two months previous to that – suggests that ingenuity and foresight have so far had their just reward.

Trade Gap and Prices

The visible trade gap in June was the highest ever recorded for one month. It reached £151·2 million. Some idea of its size can be obtained from a comparison with the average gap for the first five months of this year, when it was £81 million and with a gap of £29 million in the average month of last year. Exports in June fell from the high level achieved during May to £208·6 million, a drop on the month of about £33 million (including re-exports). Imports on the other hand forged ahead from £338 million in May to almost £360 million.

This worsening of the gap to such an extent is exceedingly serious and if it is maintained for a run of months the dollar problem will be back in as acute a form as it was in 1949 and early 1950. The most hopeful sign at the moment that there may be some relief before long is the downward movement in world prices. World price leaders like rubber, wool and tin are noticeably down on the levels ruling at the end of the first quarter of the year, and these changes will later be reflected in the prices of British imports.

There are already signs, and they can be put no more strongly than that, of less pressure on internal wholesale prices. The Board of Trade's wholesale price index moved up from 300 (average 1939 = 100) to 319 in April. Since then it has risen to only 320·7. It will be easier to see the significance of these movements when the June trade figures are available and it becomes possible to say how far the continued increase in import values is due to higher prices, or to large seasonal inward movements of goods.

Bank Money and the Import Surplus

The clearing banks' statement for June throws some interesting light on the effect of a rising import surplus on the national finances. The return for last month shows that there was a comparatively modest increase in the level of bank deposits. Net deposits in June actually increased by £71 million compared with a rise of £84 million in the same month last year.

But this modest increase hides two rather larger and significant changes. The first of these was a noticeable increase in the level of bank advances. These jumped by £89 million to reach a new record level. The reasons for this record figure are not far to seek. During the month of June, many firms must have been experiencing the full impact of higher commodity prices and wage increases. Much more difficult to guess is what the trend may look like over the rest of the summer with rearmament on one side putting a strain on working capital resources, while lower commodity prices and a higher price for bank accommodation pull on the other.

On the other hand, call money, bills and Treasury deposit receipts showed a net decline of some £10 million. This suggests that the Government has felt less need than is usual at this time of the year to seek accommodation from the banks. Instead it has been able to reply upon the heavy import surplus to provide it with temporary sterling and hence with short-term finance.

Deficit in E.P.U.

With the figures for May, issued a month ago, the run of the sterling area's surpluses with the European Payments Union came temporarily to an end. In May the deficit had been 27 million units. In June it was almost doubled at 52 million. The figures do not reveal whether the deficit has arisen from smaller purchases by other E.P.U. members of the goods of the sterling area or from lower export prices in the sterling zone. These figures, however, do offer one more facet to the deterioration in the external trade position of the sterling area with the rest of the world.

At this time of the year there is usually a comparatively large inflow of fruit and vegetables from the Continent to this country which will be one more factor for the time being militating against the re-emergence of a surplus.

REVIEWS

Addington, Author of the Modern Income Tax
By A. Farnsworth, LL.D., Ph.D.

(Stevens & Sons Ltd, London. 21*s* net)

'Pitt is to Addington as London is to Paddington' goes the jingle which every schoolboy knows, and it is perhaps ironical that the name of a great statesman of the Napoleonic period should have reached posterity in such an uncomplimentary context. Now, more than a century after his death, he finds a doughty champion in Dr Farnsworth, who at the same time corrects another misconception, namely that Pitt fathered the modern income-tax. Cynics might say that the two misconceptions cancelled each other. The author goes to a great deal of trouble to prove that Pitt's income-tax of 1799 has little more in common with its modern counterpart than the name, while Addington's income-tax Act of 1803 is largely reproduced word for word in the Act of 1918, including Addington's salutary system of collecting the tax at the source wherever feasible. The book is hardly likely to raise a controversy of the 'Bacon was Shakespeare' order, but it does demonstrate how wrong historians and history books can be, even on such a non-controversial and easily checked matter, and it is very well worth reading.

Key to Income Tax and Surtax, 1951-52 (Thirty-second Edition)
Edited by Ronald Staples

(Taxation Publishing Co Ltd, London. 7*s* 6*d* net, 7*s* 9*d* post free)

One can only marvel at the speed with which this 1951–52 edition of a well-known income-tax work has been produced, and at the lowness of its price.

For a subject which changes so rapidly, there is much to be said for this kind of treatment. A great deal of ingenuity has gone into the double system of thumb indexes which is used, and for which the claim is made that any reference can be found in five seconds. Despite the smallness of the book, the text covers, in addition to income-tax and surtax, Eire income-tax and also the British special contribution, and there is a short section on back duty. This wide range has not been achieved at the expense of the print, which is very readable.

FINANCE AND COMMERCE

With the volume of business still small, stock markets remain quiet. There are signs, however, that the twin trends towards equities and away from fixed-interest stocks are developing again. Inflation is still the major market factor.

Spicer's Accounts

This week's reprint gives the accounts of Spicers Ltd whose ordinary shares have recently been marketed on the London Stock Exchange. The opening market basis was 70*s* for the £1 stock units, a valuation which readers may like to compare with their own computation. It is a very old-established paper-making family business in existence long before it took over its present site in the City of London, and it has been there for 150 years.

An interesting aspect of this company's financial management is the long-standing practice of using endowment policies of insurance as provision for leasehold amortisation and the depreciation of freehold properties. One sees very little of this form of provision, comparatively speaking, in the general run of company accounts these days. Readers will note the relative entries in these accounts.

We notice on the board Mr W. S. P. Clements, A.C.A., who spent his early years with Messrs Price Waterhouse & Co, one of the company's joint auditors.

Rebel Humour

If this were really a socialist state, Mr C. O. Stanley, chairman of radio and television-making Pye Ltd, would almost certainly be missing. No bureaucracy with power to retaliate would endure his criticism. Mr Stanley has to toe the line, of course. If the Bank of England says he cannot have the Canadian dollars to feed the infant Pye business in Canada, that obviously is the end of that – except for Mr Stanley's 1,000-word description in better-than-Punch style of the abortive interviews with 'The Old Lady of Threadneedle Street'.

At the Bank, Mr Stanley met three gentlemen, one from the Board of Trade and two from the Ministry of Supply and 'the first of these gentlemen very quickly made us feel what a terrible mistake we had made in going to Canada at all'. In similar vein, he expresses his views on the technical side of the broadcasting system, the post office control of all electrical means of communication, etc.

All this, however, while making excellent reading for shareholders and others, displays the mind of a company chairman with a great sense of humour and that is a very valuable asset.

Overseas Separation

This year's accounts of the Metal Box Co Ltd give effect to the transfer to a new subsidiary – the Metal Box Co Overseas Ltd – of all the company's investments in overseas subsidiary and associated companies. In the parent balance sheet, shares in associated companies (£128,884) and in subsidiaries (£1,756,563) become shares in the Overseas company at the book value of the assets transferred. The assets continue to be incorporated in the consolidation, but shareholders in the parent company also have for their information the separate accounts of Metal Box Overseas. The accounts are also accompanied by a photographic supplement which includes a reproduction of the picture of the ship taken at night which Festival visitors see in the Gallery of Metals.

A useful inclusion with these accounts is 'The Year in Brief' which opens with 'income from sales and investments' and proceeds to 'net income', 'retained in the business' and 'net dividends', the items for materials, wages, depreciation, taxation, etc., being expressed as a percentage of sales. All figures have their last year's comparison.

The table discloses the useful information that net dividends of £309,000 were out of £724,000 net income. We should like to see added in this and similar cases, earnings and dividend as a percentage of capital. The dividend is known by that percentage. What people also want to know is the size of the available earnings in the same medium.

Unilever's Salient Points

Lever Brothers & Unilever provide a page of 'salient points' with the accounts. It reads as follows:

SALIENT POINTS

All figures relate to the LIMITED and N.V. Groups combined; details are set out in the accompanying Statements and should be considered in conjunction with the notes thereon.

1949 £			1950 £
273,482,097	**Capital Employed**		308,888,453
153,556,332	**Fixed Assets**		168,563,508
119,925,765	**Net Current Assets**		140,324,945
800,897,000	**Turnover**		988,870,000
6,604,839	**Depreciation**	Charged to trading account	*7,851,664*
4,247,744	**Fixed Assets Replacement Reserves**	Charged to trading account	*4,943,233*
31,947,465	**Trading Profit**		52,181,298
5,680,882	**Exchange Surpluses**		64,739
1,823,308 (brought back)	**Stock Reserves**		2,629,699
17,569,024	**Taxation**		*28,459,366*
19,580,127	**Consolidated Net Profit**		19,226,875
16,100,901	**Profit accruing to the Ordinary Shareholders**		15,747,649
11·1%	Percentage on Ordinary Shareholders' Funds		9·2%
2,195,327	**Ordinary Dividends Proposed**		2,913,743
1·5%	Percentage on Ordinary Shareholders Funds		1·7%
Limited 10% **N.V.** 8·9%	Percentage on Ordinary Capital		**Limited** 13½% **N.V.** 12%

In this case, it will be seen, earnings and dividend are expressed as a percentage of ordinary shareholders' funds.

Money Market

Applications for Treasury bills totalled £345,150,000 on July 13th and the market received 61 per cent of stated requirements. The average rate was 10*s* 2·81*d* per cent and this week's offer is reduced to £230 million. There is no call against Treasury deposit receipts.

SPICERS LIMITED

Balance Sheet at December 31st, 1950

As at 31.12.49 £	As at 31.12.49 £			£	£
		AUTHORIZED AND ISSUED CAPITAL			
	650,000	Cumulative 5 per cent Preference Stock		650,000	
1,150,000	500,000	*Ordinary Stock		500,000	1,150,000
		* Of this £15,420 Stock is held in Trust for the Company's Employees.			
		CAPITAL RESERVES			
		General – as at December 31st, 1949	£493,560		
		Add Surplus on Disposal of Property and Investment	2,096		
	493,560			495,656	
574,517	80,957	Excess Profits Tax Post-war Refund (Provisional) ..		80,957	576,613
		REVENUE RESERVES			
	500,000	General		500,000	
	420,000	Contingencies		620,000	
1,025,359	105,359	Profit and Loss Account		115,888	1,235,888
2,749,876					2,962,501
5,000		**RESERVE FOR INCOME TAX 1951–52**			172,000
		CURRENT LIABILITIES AND PROVISIONS			
	475,614	Trade and other Creditors and Accruing Expenses ..		951,155	
	14,500	*Provision for Deferred Repairs*		—	
	264,175	Provision for Taxation, including Income Tax 1950–51		213,394	
	4,469	Dividend on Preference Stock to date, less Income Tax		4,266	
778,008	19,250	Proposed Final Dividend on Ordinary Stock, less Income Tax		26,250	1,195,065
£3,532,884					£4,329,566

NOTES

1. Uncalled Liability on Shares in Subsidiary Companies - £21,000.
2. The Company has guaranteed Bank and other Advances to certain Subsidiary Companies, which Advances amounted at December 31st, 1950, in total to approximately £302,000 (*1949, £138,000*).
3. Contracts entered into for Capital Expenditure are estimated at £90,000 (*1949, £140,000*).

LANCELOT SPICER, A. DYKES SPICER, } *Directors.*

As at 31.12.49 £	As at 31.12.49 £	*Provision for Depreciation* £	*Cost or Book Value* £		Cost or Book Value £	Provision for Depreciation £	£	£
				PROPERTIES AND PLANT				
	174,234			Freehold Properties at cost			179,351	
	319,602			Leasehold Properties at cost			319,602	
	493,836						498,953	
389,261	104,575			*Less* Surrender Value of Endowment Policies for Redemption of Leasehold and Depreciation of Freehold Properties			110,119	388,834
				Plant, Machinery, Fixtures, Fittings and Motor Vehicles				
		34,300	192,077	At Cost..	239,626	53,883		
		23,692	47,741	At the net amount standing in the Company's books on January 1st, 1948	47,329	30,009		
181,826		57,992	239,818		286,955	83,892		203,063
571,087								591,897
				SUBSIDIARY COMPANIES				
	421,379			Shares at cost, less Provision			421,379	
	536,532			Amounts due from Subsidiary Companies, mainly advances of a permanent character			833,195	
	957,911						1,254,574	
889,559	68,352			*Less* Amounts due to Subsidiary Companies ..			195,863	1,058,711
				INVESTMENTS				
	14,780			Trade – at cost, less amounts written off ..			13,781	
119,355	104,575			Endowment Policies held for Redemption of Leasehold and Depreciation of Freehold Properties at Surrender Value at December 31st, 1950. (These Policies are for amounts totalling £466,600 and mature at various dates from 1956 to 2011)			110,119	123,900
				CURRENT ASSETS				
	529,724			Stock at Cost or Market Value, whichever is lower			642,198	
	775,858			Trade and other Debtors and Pre-payments ..			1,399,929	
	38,784			Premiums paid on Capital Redemption Policy for £75,000 payable in 1954 (Surrender Value at December 31st, 1950 £59,627 (*1949, £55,914*))			40,631	
	350,000			Tax Reserve Certificates			300,000	
1,952,883	258,517			Balances at Banks and Cash in hand			172,300	2,555,058
£3,532,884								£4,329,566

SPICERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account for the year ended December 31st, 1950

Year ended 31.12.49 £	Year ended 31.12.49 £			£	£
566,060		**PROFIT OF THE GROUP FOR THE YEAR,** before taking into account items set out below			1,304,938
	2,768	*Add* Interest on Loans, Bank Deposits and Tax Reserve Certificates		4,263	
	4,094	Dividends on Trade Investments		1,503	5,766
6,862					
572,922					1,310,704
		Less Remuneration of Directors of Spicers Ltd:			
	2,188	Fees	£1,918		
	32,225	Other Emoluments	34,789		
	2,953	Pensions of Past Directors and their Dependants	2,370		
	37,366			39,077	
	2,689	Mortgage Interest (gross)		4,328	
		Provision for Depreciation:			
	8,875	Freehold and Leasehold Properties (including £2,798 Premiums on Endowment Policies)	12,481		
		Plant, Machinery, Fixtures, Fittings and Motor Vehicles (*1949, £63,390*) £79,490			
		Less Profit on Sales (*1949, £4,437*) 6,494	72,996		
	58,953			85,477	
	—	Special Depreciation and Loss arising out of Cancellation of Plant and Building Contracts		38,617	167,499
107,883					
465,039					1,143,205
		Less Taxation based on the Profits of the year (less relief of approx. £57,000 (*1949, £40,000*) in respect of tax on deferred repairs and initial allowances):			
	59,042	Profits Tax		142,661	
	168,222	Income Tax		443,375	586,036
227,264					
237,775					557,169
72,008		*Add* Provisions for Taxation in previous years no longer required			32,532
309,783					589,701
23,349		*Less* Attributable to Minority Shareholders in Subsidiary Companies			32,449
286,434		**NET PROFIT OF THE GROUP,** attributable to Stockholders of Spicers Ltd			557,252
140,520		*Less* Profits retained in Subsidiary Companies			289,051
145,914		**NET PROFIT OF SPICERS LTD,** for the year carried forward to page 7 (*1949 included £50,000 Provision for Taxation in previous years no longer required; 1950, nil*) ..			268,201

Year ended 31.12.49 £	Year ended 31.12.49 £	Year ended 31.12.49 £			£	£
145,914			**Net Profit of Spicers Ltd,** brought forward from page 6			268,201
104,820			**Balance brought forward** from December 31st, 1949			105,359
250,734						373,560
			Less Dividends for the year to December 31st, 1950 – less Income Tax:			
	17,875		Preference Stock, paid or accrued		17,672	
			Ordinary Stock:	£		
			Interim 5 per cent paid on December 1st, 1950	13,750		
	27,500		Proposed Final of 10 per cent ..	26,250	40,000	
	45,375				57,672	
145,375	100,000		Transfer to Contingencies Reserve		200,000	257,672
			BALANCES CARRIED FORWARD			
105,359			Spicers Ltd, as per Balance Sheet (page 4)			115,888
			Subsidiary Companies:			
	656,597		Balances brought forward from December 31st, 1949		794,257	
	140,520		Profits retained as shown on page 6		289,051	
	797,117				1,083,308	
		2,260	*Less* Transfer to General Reserve	£8,285		
	2,860	600	Transfer to Contingencies Reserve ..	600	8,885	
791,257						1,074,423
£899,616			**BALANCE** as per Consolidated Balance Sheet (page 8)			£1,190,311

[The page numbers quoted refer to the report and statement of accounts of Spicers Ltd – Editor]

SPICERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31st, 1950

As at 31.12.49 £	£		£	£
		SHARE CAPITAL AND RESERVES ATTRIBUTABLE TO STOCKHOLDERS OF SPICERS LTD		
		Authorized and Issued Capital		
	650,000	Cumulative 5 per cent Preference Stock	650,000	
	500,000	*Ordinary Stock	500,000	
1,150,000		* Of this £15,420 Stock is held in Trust for the Company's Employees.		1,150,000
		Capital Reserves		
		General – as at December 31st, 1949 .. £528,329		
		Add Surplus on Disposal of Properties and Investment 6,557		
	528,329		534,886	
		Excess Profits Tax Post-war Refund (Provisional) – as at December 31st, 1949.. £113,677		
		Add Further amount receivable 6,728		
	113,677		120,405	
642,006				655,291
		Revenue Reserves		
	509,792	General	518,077	
	460,717	Contingencies	661,317	
	899,616	Profit and Loss Account	1,190,311	
	1,870,125		2,369,705	
	7,074	*Less* Net Excess of book values over par values of Inter-Company Shareholdings, less pre-acquisition profits	7,074	
1,863,051				2,362,631
3,655,057				4,167,922
122,837		**RESERVE FOR U.K. INCOME TAX, 1951–52** ..		361,985
145,212		**INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES**		175,186
98,547		**LOANS ON MORTGAGE**		119,681
		CURRENT LIABILITIES AND PROVISIONS		
	950,583	Trade and other Creditors and Accruing Expenses ..	1,688,797	
	196,812	Bank Overdrafts of Subsidiary Companies	323,577	
	15,526	*Provision for Deferred Repairs*	—	
	598,063	Provision for Taxation, including Income Tax 1950–51	529,891	
	23,719	Dividends of Spicers Ltd, less Income Tax	30,516	
1,784,703				2,572,781
£5,806,356				£7,397,555

NOTES

1. Contracts entered into for Capital Expenditure are estimated at £335,000 (*1949, £321,000*).
2. Foreign Currencies. – Net current assets in foreign currencies have been converted into sterling at the rates at which such currencies could have been sold at December 31st, 1950. Fixed assets in foreign currencies have been converted into sterling at the rates ruling at the date of acquisition.

LANCELOT SPICER, A. DYKES SPICER, } *Directors.*

As at 31.12.49 £	£ (Provision for Depreciation)	£ (Cost or Book Value)		£ (Cost or Book Value)	£ (Provision for Depreciation)	£
			FIXED ASSETS			
			Freehold Properties			
490,909			At cost			592,316
206,747			At the net amount standing in the Companies' books on January 1st, 1948			206,245
336,387			**Leasehold Properties, at cost**			336,387
1,034,043						1,134,948
			Less **Provision for Depreciation:**			
	116,547		Surrender Value of Endowment Policies for Redemption of Leasehold and Depreciation of Freehold Properties ..		122,927	
	48,632		Other Provisions		64,515	
165,179						187,442
868,864						947,506
			Plant, Machinery, Fixtures, Fittings and Motor Vehicles			
	77,372	460,101	At cost	714,925	133,040	
	62,843	209,960	At the net amount standing in the Companies' books on January 1st, 1948..	207,762	84,003	
	140,215	670,061		922,687	217,043	
529,846						705,644
1,398,710						1,653,150
			INVESTMENTS			
	26,311		Trade – at cost, less amounts written off ..		25,872	
	116,547		Endowment Policies held for Redemption of Leasehold and Depreciation of Freehold Properties at Surrender Value at December 31st, 1950. (These Policies are for amounts totalling £517,000 and mature at various dates from 1956 to 2011)		122,927	
142,858						148,799
			CURRENT ASSETS			
	1,543,723		Stock at Cost or Market Value, whichever is lower		2,046,699	
	1,613,673		Trade and other Debtors and Prepayments ..		2,554,114	
	64,460		Premiums paid on Capital Redemption Policies. (These Policies are for amounts totalling £157,646 and mature at various dates from 1952 to 1975. Surrender Value December 31st, 1950, £92,994 (*1949, £86,561*))		68,107	
	575,950		Tax Reserve Certificates		507,325	
	466,982		Balances at Banks and Cash in hand and in Transit		419,361	
4,264,788						5,595,606
£5,806,356						£7,397,555

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

In re Cunliffe-Owen

In the High Court of Justice (Chancery Division)
April 12th and June 6th, 1951
(Before Mr Justice WYNN-PARRY)

Estate duty – Foreign estate duty – Whether freedom from death duties includes foreign duties – Estate duty on settled pecuniary legacy – Double estate duty agreement – Apportionment of relief among beneficiaries – Double Taxation Relief (Estate Duty) (Canada) Order, 1946 (*No.* 1884).

The testator, who died in 1947, gave a number of pecuniary legacies, and in clause 7 of his will directed that

> 'so much of the death duties payable with reference to my death in respect of all legacies . . . as shall be equal to the death duties at the rates in force at the date of this my will shall be paid and discharged out of my residuary estate'.

At the date of the will, and for many years previously, the testator owned large holdings of investments in South Africa, Canada (including Quebec) and the United States of America. The first question that arose was whether the various legacies should, as opposed to the residue, bear the succession duties imposed by the Union of South Africa, the Province of Quebec and the Dominion of Canada.

By clause 6 of the will a sum of £15,000 was bequeathed on trust for J. W. S. Comber, and provision was made for sums up to £12,500 to be transferred to him as the distribution of the residue took place. Clause 6 also directed that the £15,000 was to be held 'in addition to raise thereout and pay the duties on the said sum'. The second question that arose was whether any death duties, in excess of those payable under clause 6, out of the £15,000 could be thrown on to residue by virtue of clause 7.

The third question related to the effect of article 5 of the Double Taxation Relief (Estate Duty) (Canada) Order, 1946 (No. 1884), as between Mr Comber, Miss Cunliffe-Owen, one of the residuary legatees, and the other residuary legatees. There was evidence that Canadian succession duty is payable by the successor and not out of residue, and at rates varying with the relationship of the successor to the testator. As Miss Cunliffe-Owen was not a relation of the testator, she had to bear Canadian succession duty at a higher rate than in the cases of the other residuary legatees, and this amount of Canadian succession duty, together with the other amounts of such duty, had to be allowed as a credit against estate duty payable in the United Kingdom. The questions that arose, therefore, were (1) whether Mr Comber was entitled to share in the relief obtainable in this way, and (2), as between Miss Cunliffe-Owen and the other residuary legatees, whether the relief should enure for their benefit in proportion to their respective interests in the residue or in proportion to the amount of Canadian succession duty borne by them respectively.

Similar questions arose in relation to South African succession duty, as to which there was no agreement between the two countries, but which the Inland Revenue, by way of concession, allow to be deducted from the value of South African personalty. South African succession duty, also, is payable by the successor, and is charged at rates varying with the relationship of the successor to the testator.

Held, (1) that clause 7 of the will did not give freedom from foreign death duties, but was confined to United Kingdom death duties; (2) that Mr Comber was not entitled to have any of the United Kingdom duties applicable to the £15,000 paid out of residue; (3) that the relief in respect of the overseas succession duties enured, not for the benefit of the estate generally, but for the benefit of the persons who have to bear the United Kingdom estate duty on the overseas assets; (4) that, therefore, Mr Comber was entitled to his proper share of the relief, and the relief in respect of the residue should apply among the residuary legatees in the same proportions as they had to bear United Kingdom estate duty in respect of their residue.

Birmingham Small Arms Co Ltd *v.* C.I.R.

In the House of Lords – June 20th, 1951
(Before Lord SIMONDS, Lord NORMAND, Lord OAKSEY, Lord RADCLIFFE and Lord TUCKER)

Excess profits tax – Capital employed in business – Destruction of capital assets by enemy action – Claims to payment for war damage – Whether such claims are capital employed in business – Finance (*No.* 2) *Act,* 1939, *Section* 13 (3); *Schedule VII, Part II, paragraph* 1 (1), (2) – *War Damage Act,* 1941, *Sections* 61 *and* 68.

A large part of the company's machinery and tools, to the value of £647,012, was completely destroyed by enemy action on or about November 22nd, 1940. After the passing of the War Damage Act, 1941, the company made a claim for a payment to be made under the Act by the Board of Trade in respect of the war damage it had sustained.

The company was assessed to excess profits tax for the chargeable accounting period from August 1st, 1940, to July 31st, 1941, and contended that the claim arising under the War Damage Act, 1941, should be included as a debt in computing the amount of the capital employed in its trade in this period, pursuant to paragraph 1 (1) (*b*) of Part II of the Seventh Schedule to the Finance (No. 2) Act, 1939; alternatively, that the right of claim was an asset acquired

otherwise than by purchase, within the meaning of sub-paragraph (1) (*c*) of the said paragraph, and that the value of such asset when it became an asset of the trade was £647,012, and should be included in computing the capital employed in the trade.

The Special Commissioners held that there was no debt due to the company during the period in question, and that although the claim against the Board of Trade was an asset, it was not an asset which was employed in the business in the chargeable accounting period under appeal.

Held (affirming the judgment of the King's Bench Division and of the Court of Appeal), that the Special Commissioners' decision was correct.

In re Brassey's Resettlement

In the Court of Appeal – June 20th, 1951

(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS and Lord Justice BIRKETT)

Estate duty – Cesser of interest – Trust for keeping up insurance policies – No interest of deceased in policies – Policy money passing into trust fund – Continuance of life interest – Whether a cesser of interest on death of life assured – Finance Act, 1894, *Sections* 2 (1) (*b*), 7 (7).

By a deed of appointment and resettlement it was provided that the trustees should apply certain income, as far as was necessary, to the payment of the premiums of insurance policies on the life of the tenant for life, and should hold the balance of the income upon protective trusts for the benefit of his son. After the death of the son the capital and income of the trust fund were to be held for his issue; and if no child of his took a vested interest, the trust fund was to be held as he should by will or codicil appoint.

From the date of the resettlement until the date of the death of the tenant for life the premiums on the policy were paid by the trustees out of the trust income, and the balance of the income was paid to the son. The latter had not exercised his power of appointment in favour of a surviving wife, and he had no issue; and in these events the trust fund would, on his death, pass to the residuary legatees under the life tenant's will.

The Inland Revenue contended that estate duty was payable, on the life tenant's death, in respect of the slice of the trust fund, which was required by the income thereof for the payment of the premiums on the assurance policies. The claim was made, under the Finance Act, 1894, Section 2 (1) (*b*), on the footing that on the death of the life tenant there was a cesser of an interest and the accruing or arising of a benefit thereby.

It was contended for the trustees that on the death of the life tenant there was no cesser of interest because (1) there was merely the cesser of the payments of premiums, (2) the interest of the life tenant's son remained as it was before, namely, a reversionary interest in the capital of the trust fund, (4) Section 2 (1) (*b*) was not concerned with interests in remainder.

Held (affirming the judgment of Mr Justice Romer), that, on the life tenant's death, the remaindermen had other interests in the trust fund, and that other benefits accrued or arose by the cesser of such interests; and that estate duty was, therefore, payable under Section 2 (1) (*b*) of the Finance Act, 1894.

Littman *v.* Barron

In the Court of Appeal – June 15th, 1951

(Before Lord Justice COHEN, Lord Justice SINGLETON and Lord Justice JENKINS)

Income-tax – Excess rents assessed under Case VI – Deficiencies of rents – Whether deficiencies can be set off against excesses – Income Tax Act, 1918, *Schedule D, Charging Rule* 2, *Case VI – Finance Act,* 1927, *Section* 27 – *Finance Act,* 1940, *Section* 15.

The appellant, a dealer in property, held a large number of leasehold properties, which he let, and the rents received by him as the immediate lessor gave rise to notional annual values computed according to Section 15 (1) of the Finance Act, 1940. In respect of two other properties the appellant received a rent which was smaller than the rent paid by him, and in respect of three other properties he received no rent. He was assessed under Case VI of Schedule D pursuant to Section 15 of the Finance Act, 1940, on the excesses of rents computed under that section, and contended that he was entitled to set off against those assessments the amounts of the deficiencies of rents, on the footing that if the five properties had produced excesses of rent, those excesses would have been profits within Section 27 of the Finance Act, 1927, and the appellant would have been liable to be assessed in respect thereof under Case VI.

Held, reversing the judgment of Mr Justice Wynn-Parry (Lord Justice Jenkins dissenting), that an excess arising under Section 15 (1) of the Finance Act, 1940, was a profit to which Section 27 of the Finance Act, 1927, related, and that, therefore, the deficiencies of rent could be set against the excesses.

In re Beit

In the High Court of Justice (Chancery Division) June 6th, 1951

(Before Mr Justice VAISEY)

Estate duty – Bequest of annuities – Estate insufficient to provide annuity fund – Purchase of annuities from testatrix's children – Agreement that purchased annuities be held as sole security for payment of will annuities – Death of annuitant – Whether cesser of interest and benefit accruing or arising – Whether disposal or determination of life interest – Finance Act, 1894, *Sections* 2 (1) (*b*), 7 (7) – *Finance Act,* 1940, *Section* 43.

The testatrix, who died in 1946, bequeathed a life annuity (and other such annuities) of such an annual amount as after deduction of income-tax would leave £52 12*s* 0*d*. The will directed the executors to appropriate an annuity fund sufficient by its income, and

on the basis of the standard rate of income-tax then in force, to provide for the annuity and for the other life annuities bequeathed by the will. Subject to the payment of the annuities, the annuity fund was to be held on the same trusts as those concerning the balance of the estate.

The testatrix's estate was insufficient to constitute the annuity fund directed by the will, and the executors arranged to provide for the annuities by purchasing corresponding annuities from the testatrix's children, and by appropriating a purchased annuity of the same amount to each annuitant as security. The annuitant (and all the other annuitants except two) wrote letters to the executors agreeing to this arrangement and agreeing 'that the executors shall hold the annuity purchased as sole security for the payment of my annuity, and distribute the remainder of the estate free from any claim by me'. Thereafter the executors paid the annuity (and all the other annuities) out of and by means of the corresponding annuity paid to them by the children under an agreement that was made between the executors and the children to that effect.

The annuitant in question died in November 1947, and the Inland Revenue claimed estate duty, under Section 2 (1) (*b*) of the Finance Act, 1894, on the footing that there had been a cesser of the annuity, and under Section 43 of the Finance Act, 1940, on the footing that there had been a disposition or determination of the life interest represented by the annuity.

Held, (1) that there had not been such a cesser of interest, by the falling in of the annuity in question, as to give rise to a benefit of the kind contemplated by Section 2 (1) (*c*) of the Finance Act, 1894; (2) that there had been neither a disposition nor a determination of the will annuity, and that, therefore, Section 43 of the Finance Act, 1940, did not apply; (3) that the claim to estate duty failed.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Auditor in Public Corporations

SIR, – In a letter by Mr W. H. Roberts, published in your issue of July 7th, reference is made to my article entitled 'Control of Public Corporations: Functions of the Auditor' which you published on May 12th, last.

I gather that Mr Roberts shares the views which I expressed concerning the difficulty of devising adequate criteria by which the efficiency of public corporations may be tested and judged.

In his third paragraph, however, he poses a question which seems to call for a reply from me. In the first place, I may give the immediate assurance that it was not modesty which deterred me from proposing a solution on the lines of development of a suitably trained internal audit branch within the corporations. I am grateful, however, for the raising of the question, because it enables me to refer to a point with which I did not deal specifically in my article, namely the great merit of independence which characterizes the professional, as distinct from the official, audit. Independence of an auditor is it seems to me, open to at least two dangers: firstly, that by over-great familiarity and membership of a common service, with those whose accounts he is auditing, he may come to view their operations over-sympathetically and too much from their point of view. Secondly, if the auditor is a member of the same organization, his channels of report are essentially to those upon whom his criticisms, if any, would be likely to fall. So far as the Exchequer and Audit department is concerned, whilst every possible legal safeguard to its independence exists, it is, I feel, liable to some loss of independence under the first of these headings. So far as internal audit organizations are concerned they have, in my experience, undoubtedly suffered under the second.

Apart from this, whatever the merits of internal audit organizations, they are not in my view, suited for the purpose of enabling effective criticism by a body which would need to have some at least of the attributes of a general meeting of shareholders.

I much appreciate Mr Roberts' remarks and suggestions, but feel that the remedy is still to seek.

Yours faithfully,

London, EC2. H. O. H. COULSON.

Purchase Records

SIR, – It has been represented that to expedite this extraction of monthly profit and loss accounts, bought invoices should be entered in an invoice register and posted, before being passed, to the impersonal ledger.

Before being paid they would go through the normal procedure for passing, i.e. be checked as to additions, calculations, receipt and inspection (goods inwards notes) and be sent, for final passing, to the department for which ordered (copies of orders are not yet available to the accounts dept). My resulting modifications or cancellations of invoice totals would be adjusted. No bought ledger is kept.

My every fibre is outraged at the thought of (1) posting unpassed documents to an impersonal ledger, and (2) the weakening of an internal check which guards against unauthorized payments. Am I being old-fashioned?

It has also been represented that in many businesses it is a practice to post unpassed documents in this way. The opinions of your readers would be appreciated as to the suitability of this method for a large organization.

My own attitude is that the time taken by invoices to complete the cycle of operations for passing should be radically reduced (resultingly reducing the invoices 'received but unpassed/unpaid') and that unpassed and unpaid invoices should be listed at the month-end and reserved on the appropriate impersonal ledger account.

Agreed there is little difference between reserving for an unpassed invoice and actually posting this – but what a difference ! !

Yours faithfully,

*London, SE*19. E. C. SHANKS, A.C.A.

Orthodox Profits

SIR, – Mr Briscoe, in his interesting article entitled 'A Case for Orthodox Profits', in defence of 'historical' cost deductions in profit calculations, published in your issue of July 7th, 1951, ranges so far and wide as to leave one wondering how we dare make any accounting entry until we have worked out its possible consequences on the standard of living in Port Said and points east.

Curiously enough, he recognizes that there is such a thing as truth in profit ascertainment. It is remarkable that he supports overstating business profits, apparently merely because recipients of fixed interest cannot be allowed to deduct depreciation in the real value of their investments in ascertaining taxable income. (Incidentally he does not give *his* reasons for deciding that this deduction cannot be granted.) Why the assumption that justice is achieved by ignoring rising prices in all cases? In one case, the whole of a firm's apparent profits of £10,000 may be eliminated if changes in the value of money were adjusted. In another, profits of £100,000 may be inflated by only £10,000 by this influence.

Mr Briscoe's assumption that he is meeting 'replacement cost accountants' on their own ground is incorrect. That the 'orthodox' method undermines the financial stability of business does not constitute the case for adjusting for a fall in money values. It is a comment on the consequences of misstatement, not a proof of error. The correct procedure for ascertaining profit is a matter for careful theoretical consideration as a basis for the establishment of reasonably convenient rules.

Mr Briscoe's comments about what revenue a trader is 'entitled to' are quite baffling. Apart from restrictive price controls a business's money revenues increase more or less proportionately with the fall in value of money. 'Orthodox' figures of profits, however, increase more than proportionately, but between two otherwise identical firms, the results would depend on the age of the plant and the differing historical cost. As such, the 'replacement cost accountant' is not concerned with what prices a firm 'ought' to charge, but simply with the elimination of the extra margin attributable to the reduction in money values which the firm's accounts would otherwise wrongly show as earned.

The appeal to 'fairness' is a considerable red herring. There is no reason to think that the Companies Act uses 'fair' in the sense Mr Briscoe suggests – and if it does, truth is mentioned first. If Herr A. bought a ton of something one day for 100,000 marks, and sold it in a week for 1 million marks, and if in the meantime the daily cost of keeping alive had risen from 100,000 to 800,000 marks, then he would not have made 900,000 marks profit. He would, of course, be better off than Herr B. with a government bond for 100,000 marks, and that is a large question; but, in dealing with this question, let us not begin with the idea that Herr A. made a spendable taxable profit of 900,000 marks.

According to Mr Briscoe, although only 900,000 is 'fair', both 900,000 marks and 200,000 marks are 'true' profits. The word 'truth' is indeed becoming more debased than the pound if we are to accept this remarkable proposition!

Yours faithfully,

*London, W*1. HARRY NORRIS.

SIR, – I refer to the article entitled 'A Case for Orthodox profits' by Mr H. A. Briscoe, A.C.A., which appears in your issue of July 7th. In theory, there is undoubtedly much to be said for Mr H. A. Briscoe's argument that it is unfair to protect the equity holder by giving him the benefit of replacement cost accounting.

But as always there is another viewpoint. To a considerable extent inflation here has been deliberate. It is not necessarily wrong for those who can or choose to do so to protect themselves from inflationary losses, particularly those which are political in origin. We should level our strictures at those who have so light-heartedly played with this most dangerous force, so easy to loose and so hard to control, rather than at those who try to minimize its effects, which morally they may honestly regard as little better than robbery.

Surely no accountant would advise his clients to insure their property for cost price only, or would sell his own house for precisely what he paid for it? If he did, he would soon lose both his job and his savings. Then why should not commercial undertakings endeavour to protect the real value of their shareholders' investments?

Yours faithfully,

New Malden, Surrey. J. F. JUPP.

SIR, – In his article defending orthodox profits in your issue of July 7th, Mr H. A. Briscoe, A.C.A., does not sufficiently distinguish between the effects of replacement accounting, as such, and the results of using the resultant lower profit as an excuse for higher prices. By taking into account real money wealth, rather than money values, replacement accounting discourages the distribution of real wealth and tends therefore to be disinflationary, compared with the orthodox. It is no criticism of this technique that the business man might try to increase his prices in the knowledge of his 'true' profits.

The method merely indicates his position relative to real wealth and it is oversimplification to suggest that higher prices will result somewhere. Market demand and competition are more influential price factors than changes in accounting methods.

Further, to assume that higher prices result from replacement accounting is to presume that a business man fixes his prices lower than the market will bear, which is at least disputable. (The special cases of 'cost plus' prices are usually regulated by agreements and are not affected by changes in accounting methods.)

I would also venture to inquire, at the risk of incurring contempt, what validity the single venture principle has for industry where high capital investment necessitates continuity for many years, and the outside shareholders' interests are to be protected. Both requiring the analysis of changes in real wealth.

The writer undermines his case when he notes with joy that the business man does not distribute all his income, but reinvests in his concern. Replacement accounting assists him by indicating the effects of this on his real money wealth.

Yours faithfully,
T. WEATHERBY, A.C.W.A.
Stockport, Cheshire.

Conscience Money Payments

SIR, – In reply to 'Sheldon', whose letter is published in your issue of July 14th, some years ago, during a back-duty investigation, I found that the client had paid, anonymously, a considerable sum as conscience money – but not in excess of the agreed settlement. On agreement I promptly asked for the payment to be taken into account. With great consideration the Revenue noted dates, place of posting, amount, etc., and, having traced the transaction, credited it in full with rate of interest equivalent to the matter.

Yours faithfully,
JOHN MITCHELL.
Newcastle upon Tyne, 1.

SIR, – In reply to 'Sheldon's' query in your issue of July 14th, prior to the war I had a case where three partners had made improper returns and underpaid tax. One partner, to compensate, paid in 'conscience money'. When the matter came to light and tax and penalty had been paid, application was made for return of the 'conscience money', which was refunded without question upon proof of identity being forthcoming. *A fortiori*, as no returns had been made in your correspondent's case, repayment should be forthcoming, upon proof of payment by the taxpayer.

Yours faithfully,
FAIR'S FAIR.

Relief Loss on Furnished Lettings

SIR, – Further to my letter under the above heading, published in your issue of July 7th, it is interesting to note that the appeal in *Littman v. Barron*, the case to which I referred, has been allowed.

The present position is that an excess arising under Section 15 (1) of the Finance Act, 1940, is a profit to which Section 27 of the Finance Act, 1927, relates and that, therefore, deficiencies of rent can be set against the excesses.

Yours faithfully,
Enfield, Middx. BERNARD D. WINTERS.

Road Haulage Compensation

SIR, – With reference to the article on 'Road Hauliers' Compensation' published in *The Accountant* of June 2nd, 1951, the following letter received from the panel accountants in respect of a client for whom we are acting and dated June 20th, 1951, may be of interest:

> 'I am instructed to inform you that in view of the decision of the Transport Arbitration Tribunal in the case of C. & G. Yeoman with regard to the deduction of remuneration for partners' services the Commission propose that the negotiations be suspended pending the determination of the question by the Court of Appeal. Alternatively, the transferor can, of course, make application to the Tribunal to determine the amount of compensation payable.'

Yours faithfully,
L. H. BENTEN & CO.
Bishop's Stortford, Herts.

The Qualified Accountant in Industry: A Suggested Supplementary Course

SIR, – For many years past there has been a growing recognition of the fact that the preparation of monthly industrial and commercial accounts for management purposes involves technical problems which do not exist at all in external auditing work. So far attempts to include this field of accountancy in the examinations of the senior professional qualifying bodies have met with little success, and I believe that the reason is this:

The professional training for an accountant is based upon auditing practice, which is static in the sense that it deals with completed accounts, checking for accuracy and adjusting for correct practice in allowances, taxation, etc. Being a static procedure, recommendations for optimum practice can be safely made, as the results are there and need only to be considered in the light of past events already historical.

Industrial accountancy, on the other hand, is essentially dynamic; the monthly trial balance has to be taken out no matter what is going on, and closing stock values must be assessed by some empirical method. It is impossible to lay down more than optimum recommendations for procedure, since circumstances are inevitably variable, and the accountant must use his judgment in the light of his technical background of accounting principles. Methods that might be correct in one case might be unsuitable in another, but in spite of this a great many concerns possess expert industrial accountants who bring out accurate monthly results, having added to their technical training such additional standards, often learnt by trial and error, as will provide the

managing director with the guidance that he requires.

Could not, therefore, this problem of providing adequate training for accountants who work in industrial and commercial undertakings be solved by accepting the existing recognized professional training on the auditing basis as at present, and *adding* to it, for the benefit of those who take up work in industry, a further specialized course of a comparatively brief nature in industrial accountancy?

Such a course could be prepared without difficulty by a small committee of industrial accountants and industrial managers; the educational authorities would, I feel sure, gladly co-operate, and the senior professional accounting bodies might be prepared to recognize the examination by endorsement on their own qualifying membership certificates. This last point, though it would set the seal of official approval to the course, is not indispensable; the main thing is to provide the training which so large a proportion of accountants in industry at present lack.

A scheme of this nature would avoid the necessity for any change in the existing examinations of the professional accounting bodies, and so get around the obstacle which has for so long stood in the path of the recognition of industrial accountancy as a specialized field.

Yours faithfully,

London, NW8. T. G. ROSE.

THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS

Results of Examinations held May 1st, 2nd and 3rd, 1951

SUMMARY OF RESULTS

	Final	*Inter-mediate*	*Pre-liminary*	*Total*
Candidates Awarded Honours	6	9	–	15
Candidates Passed ..	189	339	42	570
Candidates Successful	195	348	42	585
Candidates Failed ..	415	437	96	948
Candidates Sat ..	610	785	138	1,533

FINAL EXAMINATION

Honours Candidates (6)

Stevenson, Reginald Percy, Ilkeston. (*First Certificate of Merit and First Prize.*)

Hunt, John Harvey, Portsmouth. (*Second Certificate of Merit and Second Prize.*)

Edge-Partington, James Patrick Seymour, London. (*Third Certificate of Merit and Third Prize.*)

Webster, Thomas Henry, Morecambe and Heysham. (*Fourth Certificate of Merit.*)

Smallwood, Kenneth Cook, Middlesbrough. (*Fifth Certificate of Merit.*)

Acharya, Senapur Panduranga, M.COM., Bombay. (*Sixth Certificate of Merit.*)

Candidates Passed (189)

Ashton-under-Lyne, Jackson, William James. *Barking*, Watt, Archibald George. *Belfast*, Bell, Robert Leslie, B.COM.SC.; Morrison, William Stanley. *Birmingham*, Bennett, Barrie John Arthur; Hawkins, Cyril James; Hilton, Cyril; Hyam, Frank Hyman; Kenwright, Joseph Arthur; Wass, Norman Taylor; Yardley, John Walter. *Bolton*, Birch, Ronald. *Bournemouth*, Brown, Ronald George Douglas; Guard, Grenville Lemon; Mey, Leslie John; White, Charles Arthur Derham. *Bradford*, Akester, James Raymond; Hanby, Fred; Rodley, Kevin Cyril. *Bridgend*, Down, Gordon Harold. *Brighton*, Pelling, Dennis Arthur; Potter, Frederick Brian. *Bristol*, Norton, John Edward Foakes; Peel, Ronald. *Burton-on-Trent*, Gardner, Malcolm Arthur. *Calcutta*, Basu, Prashanta Kumar, M.SC. *Canterbury*, Howes, Leslie Walter. *Cardiff*, Poley, Lester Charles; Randall William George; Sparkes, David John Charles, B.A. *Chesterfield*, Brien, James Allan. *Douglas*, Corlett, James Daniel Fynlo; Garrett, John Lionel. *Dunfermline*, Ness, James Stein. *Exeter*, Richards, Wilfred Eric. *Gateshead-on-Tyne*, Steel, William. *Gillingham, Dorset*, Moore, John Horatio. *Gloucester*, Gower, Oliver William; Trenfield, Dennis Walter Stuart. *Halifax*, Whiteley, Raymond. *Haverfordwest*, Symonds, Henry McKenzie. *Hitchin*, Simmonds, Douglas Warwick. *Huddersfield*, Cardno, Peter Chilton. *Hull*, Clark, Bernard; Dobson, Peter; Harris, Ronald; Lightowler, John Craven; Mitchell, Fred Debney; Moss, Frank William. *Johannesburg*, Creecy, Ronald Gordon. *Keswick*, Pridmore, Henry Denwood. *Kettering*, Burditt, Geoffrey Boulter; Wells, John Luther. *Keighley*, Harris, Desmond Wright. *Kingston-on-Thames*, Brett, James Arthur. *Leeds*, Brailsford, John Samuel; Stewart, Roy; Thompson, Harold; Windsor, Eric; Woodhead, Raymond. *Leicester*, Bates, Edward Laurence; Baxter, Roy William; Dennis, Charles Geoffrey Dixon; Howard, John; Lee, Cecil Stephen; Smith, Eric. *Liverpool*, Ashton, Frank Charles; Moon, Alexander Gordon; Pate, John; Rothwell, Robert Kenneth; Sealey, Donald Philip. *London*, Armitage, Eric Leslie; Baly, Patrick Thomas; Barnes, Alan Frederick; Beard, Ernest James; Bennett, Alan Sidney; Bolton, Frederick George Edwin; Boorman, Albert Edward Camburn; Botting, Maurice Philip; Bowden, Geoffrey; Bustard, John Stanley Mears; Carr, Kenneth Edmund; Carter, Peter John; Chandler, Leonard David; Clark, Frederick Charles Henry; Cockell, Allan Richard; Daly, Norman Brian; Da Silva, Leonel Maria Gomes; Davie, Peter Charles; Dixon, David Alfred. Downes, William Dennis; Fish, Frederick Frank; George, Ernest John; Glass, Sydney Andrew; Gold, Sidney; Graham, Brian Donald George; Heather, Thomas William; Holden, Harold Victor; Jones, John Richard; Jones, Kenneth; Kale, John Reginald; Keeling, Frederick Alexander; Keen, Alfred George; King, Basil Richard; Leake, Dennis Thomas; Legg, Henry Thomas Bernard; Leigh, David; Lowe, Dennis Eric; McGowan, James Edwin Charles; McGuire, Alexander; Maloney, Christopher Ronald; Mattingly, Leslie Albert; Miller, Raymond Peter; Moore, Sydney Dennis; Murphy, John Declan; Nevill, Stanley Francis; Ogle, Alex Geoffrey; Page, James Edwin; Palmer, Eric Anthony; Potter, Edward; Ray, Eric Arthur; Ritchie, Stanley Arthur; Roberts, Hedley William; Rose, Bernard; Rosenbluth, Ernst Emanuel; Shaw, William Edward; Stubbington, Kenneth Arthur; Sutton, John Derek; Tennant, Victor William; Tickner, George Edmund; White, Arthur Leonard; White, John Francis; Wickenden, Robert Charles; Wilson, Geoffrey Ernest; Wilson, John Vertue; Witchalls, Frederick Edward John. *Luton*, Wilscher, Kenneth Frank. *Madras*, Thomas, Panampunnayil John, B.A. *Maidenhead*, Wheeler, Derek Alfred. *Manchester*, Abbott, Denis Edward; Baskerville, Roy; Buller, Alan; Guest, Walter; Hanley, Alfred Peter; Livesey, Lawrence Arthur; Mitchell, William John; Skermer, Ronald; Smith, Peter Lees, B.A. *Mansfield*, Gill, Leonard. *Marlborough*, Deane, Harold Walter. *Nairobi*, Trundell, Ernest Harry. *Nelson*, Morrell, Norman. *Newcastle upon Tyne*, Glenn, Cecil; Hall, Raymond; Ibbotson, James Ernest; Swan, Denis Alexander; Waites, Arthur *Newport, Mon.*, Pulsford, John Henry. *Newton Abbot*, Coles, Frederick Elliott. *Northampton*, Underwood, Brian Reid. *Nottingham*, Bell, William Raymond; Lewis, Harry Frederick; Walker, John Michael Henry. *Plymouth*, Stone, John Duncan. *Pontypridd*, Harris, Creighton. *St Annes-on-Sea*, Rich, Kenneth Higham. *St Austell*, Medlin, Lawrence Vivian Thomas. *Scarborough*, Johnson, Eric. *Sheffield*, Bradbury, Dennis Egerton Brayshaw; Keating, Francis Arthur; Lister, Thomas Raymond. *Shrewsbury*, Neale, Philip George. *Southampton*, Harding, Brian William. *Southend-on-Sea*, Porter, John, B.A. *Stalybridge*, Huxley, John. *Stockton-on-Tees*, Jackson, William Kenneth. *Sunderland*, Baggott, Robert David; Clarke, Frederick Raymond; Davison, John Dexter. *Swindon*, Averies, John David; Newman, Derrick William. *Waterford*, Breen, Anthony Michael. *Windsor*,

Golledge, Norman. *Wisbech*, Turner, David William. *Wolverhampton*, Green, Harold Ernest; Pitt, Leslie James. *York*, Brooks, Walter; Cook, Reginald, B.A.; Vincent, Harold Cerdic.

INTERMEDIATE EXAMINATION

Honours Candidates (9)

Willson, Stanley William, Birmingham. (*First Place Certificate and First Prize.*)

Breton, Gerald David, Leeds. (*Second Place Certificate and Second Prize.*)

Fuller, Thomas Alfred, Kingston-on-Thames. (*Third Place Certificate and Third Prize.*)

Beaver, David William, Southport. (*Fourth Place Certificate.*)

Gross, Alexander, London. (*Fifth Place Certificate.*)

Plumpton, Allan Lionel, London. (*Sixth Place Certificate.*)

Bullock, John, Leicester. (*Seventh Place Certificate.*)

Simpson, Leslie Gordon Richard, London. (*Eighth Place Certificate.*)

Gentleman, Robert George, Dublin. (*Ninth Place Certificate.*)

Candidates Passed (339)

Armagh, Wilson, Donald Ian. *Aylesbury*, Lowe, Donald Edward. *Bacup*, Hinchcliffe, Herman. *Bath*, May, Kenneth Stanley. *Beaconsfield*, Harding, Derek Lionel. *Bedford*, Jordan, Lawrence Arthur Ward. *Bexleyheath*, Purchase, Gordon Richard. *Birmingham*, Bate, Thomas John; Dixon, Leslie Albert; Heathcote, James Arthur; Lewis, James; McCrindle, Alastair David; Morgan, Robert William; Small, James Donald. *Blackburn*, Wilkinson, Frank. *Bolton*, Holt, William Buckley. *Bombay*, Dhanbhoora, Cavas Darasha, B.COM.; Mistry, Dinshaw Maneck; Tata, Yazed Homi, B.COM. *Bournemouth*, File, Legh William; Knott, Derek Cecil Charles. *Bradford*, Harrison, Derek; Hodgson, Frank Warris; Holmes, Douglas; Ingham, Geoffrey. *Brighton*, Compton, Maurice Louis; Rignell, Dudley James. *Bristol*, Brown, Leslie William; Collard, John Lewis; Pritchet, William Henry. *Burnley*, Lomas, Bernard. *Burton-on-Trent*, Clarke, John; West, Reginald Lawrence. *Bury*, Dean, Kenneth; Holt, James; Howard, Samuel. *Calcutta*, Chaudhuri, Bimalesh Ray; Sen, Dilip Kumar. *Cambridge*, Lowe, George; Romano, Angelo Nicolino. *Cardiff*, Barnes, Thomas Fredrick Harding; Johnson, David Morgan; Spargo, Kenvyn. *Carlisle*, Batey, James Derek; Hall, John. *Chester*, Harper, Ronald. *Coalville*, Atkinson, David Rowland. *Colchester*, Pike, Thelma Elizabeth; Scott, John Whitlock. *Coventry*, Balls, John Leonard; Gibbons, Laurence Tony. *Croydon*, Long, Derek Martin. *Derby*, Gillanders, William; Ravendsale, Robert Cyril. *Dewsbury*, Whiteley, Jack. *Doncaster*, Johnson, David. *Dorchester*, Rimmer, John Edward. *Dublin*, Donnelly, John Gerard; Fagan, William Desmond; Kenna, Roderick; Langan, Patrick Joseph; O'Connor, Declan Patrick; Riall, Raymond Joseph Patrick. *Dudley*, Homer, Michael Lawrence. *Dunfermline*, Colman, George Mowatt. *Dumfries*, Coppock, John Trevor; Farries, Dorothy Grierson, M.A. *Edinburgh*, Clark, Donald; Clarke, Thomas David. *Elgin*, Field, Robert Baden. *Exmouth*, Snell, David Massey. *Feltham*, Schonhut, Derek Edwin. *Folkestone*, Davies, Alan John Frederick. *Glasgow*, Crawford, Duncan Stalker; Rankin, Fraser Henry. *Glastonbury*, Davis, Richard Alan. *Gravesend*, Cartwright, Anthony Henry Arthur. *Grimsby*, Sellar, Sidney Jack. *Halifax*, Greenwood, Michael Hugh Rendell. *Hastings*, Thomas, Alan Edwin. *Huddersfield*, Field, Kenneth Noel; Furness, George; Jackson, Kenneth; Kenworthy, Eric; Wilkinson, Brian. *Hull*, Batty, Raymond; Berridge, Harry; Cropper, Leslie; Curtis, John Ernest; Dobson, Clarence Conrad; Drury, Gerald; Markham, Dennis; Midgley, Arthur Leslie; Richardson, Kenneth Gordon; Stockton, Geoffrey; Suddaby, Gilbert Peter; Wetherell, Alan Harrison. *Ipswich*, Gayfer, Jack. *Kanpur*, Bhalla, Anand Prakash. *Keighley*, Hodgson, Fred Hird. *Kendal*, Thompson, Geoffrey Musgrave. *Leeds*, Dales, John Handsley; Hainsworth, Bernard; Hanna, Hanna Youssif, M.COM.; Hardcastle, Trevor; King, Leonard; McCormack, Kenneth; Parfitt, Geoffrey Clark; Smith, Gordon Chester; Thompson, Eric; Waterhouse, Gordon; Weir, James. *Leicester*, Ashwell, Roger Hillyerd; Boulter, Brian David; Charles, Douglas Arthur. *Lincoln*, Chidgey, Charles Haward; Laverack, John Arthur. *Liverpool*, Brew, George Magnus; Fitzpatrick, Joseph Gerard; Goodman, Gerald; Hancock, Allan Edward; Knisz, Philip Leslie; Lowther, John Burnett; Patterson, Michael Stewart; Preece, Thomas Edward; Roden, Ernest Victor; Rowan, Francis Thomas; Sharp, John Alan; Sherlock, Donald Joseph; Smith, Cyril William Frederick. *London*, Adams, Stanley William John; Akerman, Stephen Richard; Akers, Peter James; Allen, Eric Thomas William; Angus, Brian Lambert; Aries, David Joseph; Atwell, Ronald Victor; Bailey, Percy Bartholomew; Baker, Douglas Robert Pelham; Barkshire, Frank William; Barnes, John Henry; Basu, Nihar Kumar, B.A.; Bigley, John Victor; Bishop, Ronald Henry; Bloxam, Peter Fraser; Boddington, John; Boxall, Eric Richard; Boyce, Dennis William; Brinkley, Michael Anthony Stuart; Broom, Douglas Elliott; Bushell, Frederick Reginald; Cartwright, William James; Clemas, Lionel Walter Richard; Clinch, Cecil Charles John; Cohen, Laurence; Coleman, Adrian Harris; Collins, Stanley Simon; Cook, Trevor Maurice; Couzens, Leslie Harris; Cox, Harry; Cross, Harold William; Croxson, Francis William Collins; Cutler, Eric George; Davis, Bernard Roland; Dendy, Terence Arthur Grenville; Dennis, Terence James George; Diffey, Harold Arthur; Donald, Robert; Evans, Maurice Roy; Eveleigh, Roderick Jeffrey; Flack, John Drage; Gal, Tibor Miklos; Gianotti, David Oreste; Gibbons, Leslie Robert; Goodman, Everard Nicholas; Goodman, Harry Leonard; Gow, Ronald Edward Montagu; Grant, Colin Paul, LL.B.; Grimsdale, George Bernard; Hall, Robert John George; Hardy, Peter Francis; Hearn, Dennis; Hegazi, Mahmoud Tewfik, B.COM.; Hendre, John Francis; Hook, Geoffrey Peter; Hughes, James Martin; I'Anson, Alan Edwin; Inkpen, Richard John; James, Ronald Charles; Jarvis, John Edward; Johnston, David Horn Sharp; Jones, Alfred William; Klein, Harold; Lacey, George Isaac; Lamb, David Cyril; Latimer, Dennis George; Levy, Henry; Loosemore, John Henry; Lubell, Ronald; Lush, Dennis; Lyne, Peter James; Mansell, Peter George; Mihill, Dennis George; Morrison, Albert William; Mortimer, Ernest Edward; Newman, Frederick John; Offord, Ronald Samuel; Olive, Leslie William; Oliver, James Edward; Packer, Terence Alfred; Page, Derek George; Palmer, Anthony William; Peplow, Henry Stuart; Pollard, John Bernard; Reynolds, Neil George; Richards, Lawrence Henry; Richardson, John Kenneth; Ridler, Frederick; Riseley, Clifford Frederick; Rosling, Edward John; Roullier, John Harry; Ruby, Alfred Thomas; Ryall, David John; Shapcott, Peter William St George; Shipman, Louis Percival; Smith, Michael Percy; Tait, Murdoch Owen; Tovey, Donald Edwin; Turner, Frederick Charles; Turner, Harold Edward; Verlander, Ronald Vincent; Verreck, Leonard George Henry; Welland, John Francis; Weston, Clifford Ronald; White, David William; Whittall, Alfred Percy; Wilkins, Alfred Percy; Williams, John Robert; Wise, Jack; Wood, Norman Davies; Yates-Mercer, George Lewis. *Luton*, Manton, Stanley Cyril. *Maidstone*, Fuller, Brian Harold. *Manchester*, Allen, Gordon; Bishop, Arthur; Clarke, Neville; Deacon, Robert William; Edwards, George Alan; Goddard, Dennis Higham; Gower, George Dennis; Jones, Ernest Arnold; Lappin, Ralph Edward Rodger; Lees, Keith Edmond Coulthard; McAlice, Eric; McPhee, Donald Frederick; Scott, John Peter; Shuttleworth, Norman Frank; Taylor, Brian; Tratalos, Terence; Walker, Robert. *Margate*, Fowles, William James. *Middlesbrough*, Barry, Gerald Robert; Cook, John Alan; Dixon, John Edward; Gill, Alan; Heap, John Peter Wilkinson. *Nairobi*, White, Christopher Frank. *Newcastle upon Tyne*, Bayfield, Sidney; Hawkins, Bernard Harry; Mack, John Glyn; Meldrum, John Denholm. *Newport, Mon*, Clark, Donald William; Hockey, Ronald Christopher. *Newton Abbot*, Ireland, Dennis Lester Roy. *Northampton*, Perkins, John Newitt. *Nottingham*, Hancock, Douglas Harold; Heaps, John Howarth; Johnson, Arthur Ralph; Norman, Arthur Clifford; Pepper, John Douglas; Smallman-Raynor, Ernest John. *Oxford*, Walters, Ivor. *Paignton*, Truman, Leslie Samuel Alfred. *Plymouth*, Franks, David John; Priddy, David; Tucker, Patrick John. *Poole*, Sartin, Denis John. *Preston*, Johnstone, Henry; Rawlinson, Robert Gerrard; Sudell, Francis Gregory. *Radcliffe*, Jackson, Alan Reginald. *Ramsey*, Kneale, Robert Arthur. *Redruth*, Darlington, Herbert Terrill. *Romford*, Monger, Peter Gordon Frederick. *Rushden*, Roberts, Pamela Mary, M.A. *Sale*, Coombs, Brian James. *Settle*, Beattie, Arthur. *Sheffield*, Beasley, Derick Gordon; Doman, Derek Stanley; Horsfield, William Jasper; Illingworth, James William; Peace, Derrick; Spittlehouse, James. *Skegness*, Atkinson, Robert Alan. *Sligo*, East, Charles Kenneth Carter. *Southampton*, Baker, Alan John; Lyon, John Frederick; Snook, George Frank William. *Southend-on-Sea*, Hobbs, Robert William. *Southsea*, Cole, David George; Packer, Michael Arthur; Robson, David George. *Stafford*, Hancock, Peter. *Stroud*, Price, William Barclay. *Sunderland*, Embleton, Edward Victor; Hunter, Alan Nathaniel; Pickering, Kenneth. *Sutton*, Byford, John Arthur. *Swansea*, Beynon, Leslie Byron; Owen, Sidney. *Torquay*, Patton, John McKay. *Wakefield*, Rhodes, Harry. *Waterford*, Deevy, John Kevin. *Wednesbury*, Tyler, Percy Gilbert. *West Hartlepool*, Chapman, Robert Geoffrey; Davison, Peter Gordon. *Weymouth*, Gibbons, Mary Amanda; King, Alwyn. *Wisbech*, Salmon, Alan Daniel; Upshaw, Eric Lewis. *Wolverhampton*, Beaumont, Alan Storey. *Worcester*, Collins, Gilbert Charles; Smith, John William; White, Charles Arthur. *Wrexham*, Morris, John Vaux. *York*, Allison, Colin; Bollada, Daniel; Cockayne, Maurice; Turpin, Harry.

PRELIMINARY EXAMINATION

Candidates Passed (42)

Names on request to the Secretary.

The next examinations of the Society will be held on November 13th, 14th, 15th and 16th, 1951. Completed applications should reach the Secretary not later than Monday, September 17th, 1951.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship at the Council meeting held on July 4th, 1951, who completed their Fellowship before July 17th, 1951.

Associates elected Fellows

Atkin, Ronald William; 1940, A.C.A.; (Atkin & Co), 47 Arundel Street, Sheffield, 1, and (Macredie & Evans), Orchard Chambers, Church Street, Sheffield, 1.

Brown, Leonard Ernest; 1941, A.C.A.; (Roe, Potter & Brown), Westgate Chambers, Commercial Street, Newport, Mon.

Burnage, Charles Churchill Hutt; 1940, A.C.A.; (Gibson, Appleby & Co), 20 Bloomsbury Square, London, WC1.

Fox, William George, T.D., M.A.; 1932, A.C.A.; (*Fox & Co), 14 King Street, Leicester.

Hendry, Alexander Mitchell, T.D.; 1935, A.C.A.; (Wilkinson, Chater & Co), 28 Queen Street, London, EC4; also at Brighton (Wilkinson, Chater, Kinney & Co).

Magee, Brian Thomas John, B.COM.; 1930, A.C.A.; (Magee, Pitt & Co), 77 Ravensdale Road, Stamford Hill, London, N16.

Magee, Charles Ciaran, B.COM.; 1932, A.C.A.; (Magee, Pitt & Co), 77 Ravensdale Road, Stamford Hill, London, N16.

Martin, Peter Hugh; 1935, A.C.A.; (Miller, Smith & Co), 17 Suffolk Street, Pall Mall, London, SW1, and at Fleet.

Osborn, Cyril Reid; 1932, A.C.A.; (*Richard Coates & Co), 245 Oxford Street, London, W1.

Rees, William; 1939, A.C.A.; (H. W. Vaughan & Co), 12 Christina Street, Swansea.

Sainer, Henry; 1934, A.C.A.; 47–51 Whitehall, London, SW1.

Wilson, Samuel; 1932, A.C.A.; 1A Byron Parade, Hillingdon, Uxbridge, Middlesex.

(Not in England or Wales)

Lewis, Kenneth Maynard; 1937, A.C.A.; (Derry & Lewis), and (*Peat, Marwick, Mitchell & Co), Manica House, Manica Road, Salisbury, Southern Rhodesia, and at Bulawayo.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Personal

MESSRS E. B. GRIFFITHS & CO, Accountants, of 152 Lord Street, Southport, regret to announce the retirement from the partnership of Mr NORMAN GRIFFITHS, F.S.A.A., on the grounds of ill health. The practice will be continued in the same premises by the remaining partners, Mr A. H. GRIFFITHS and Mr T. HAGUE SUTTON, F.S.A.A., F.T.I.I., under the style of GRIFFITHS & SUTTON (SUCCESSORS TO E. B. GRIFFITHS & CO).

MESSRS NATHANIEL DUXBURY SON & CO, of Alexandra House, 49 Preston New Road, Blackburn, announce with regret the death on July 11th, 1951, of Mr JOHN PERCIVAL DUXBURY, F.S.A.A., who was senior partner of the firm.

London and District Society of Chartered Accountants

At a meeting of the Committee of the London and District Society of Chartered Accountants, held on July 10th, 1951, Mr G. D. F. Dillon, B.A., F.C.A., was elected chairman, and Mr Douglas A. Clarke, LL.B., F.C.A., was elected vice-chairman for 1951–52.

In Parliament

TAX ARREARS: BANKRUPTCY PROCEEDINGS

Mr HOUGHTON asked the Chancellor of the Exchequer how many cases of bankruptcy proceedings against music-hall and theatrical artistes have revealed sums owing to the Inland Revenue for income-tax and surtax during the past two years; and what is the total amount involved.

Mr JAY: Fifteen cases in which the proceedings were instituted by the Board of Inland Revenue; the income-tax and sur-tax involved amounted to about £44,000.

Hansard, July 12th, 1951. Oral Answers. Col. 59.

INCOME TAX: BOOKMAKERS

Mr PITMAN asked the Chancellor of the Exchequer the estimated profits of bookmakers as assessed by the Inland Revenue for income-tax purposes.

Mr JAY: Bookmakers' profits are not normally separately recorded in the Inland Revenue statistics. A special inquiry was, however, made by the Inland Revenue for the Royal Commission on Betting which, as stated on page 160 of the Royal Commission's report, revealed a total assessment of about £3,200,000 a year for the years of assessment 1948–49 and 1949–50.

Hansard, July 16th, 1951. Written Answers, Col. 81.

Controller of Death Duties

The Board of Inland Revenue have appointed Mr A. T. Evans to be Controller of Death Duties from August 1st, 1951, in succession to Sir Francis H. Peake who is retiring from the public service.

Appointment of Official Receiver

The Board of Trade have appointed Mr Christopher Albert Taylor to be Official Receiver for the Bankruptcy District of the County Courts of Sheffield and Barnsley, with effect from May 15th, 1951.

Revenue Concessions

The extra-statutory concessions granted by the Inland Revenue and in operation on December 31st, 1949, which appeared in the 93rd report of the department and were reproduced in our issue of January 20th, 1951, have now been published in leaflet form (No. 500), copies of which can be obtained from the Inland Revenue. Additions and amendments will be included in subsequent annual reports.

National Insurance

IMPORTANT CHANGES FROM JULY 16TH

Important changes in the National Insurance Scheme affecting retirement pensions, widow's benefits, and the allowances for some dependent wives are to operate as from July 16th, under an order[1] made by Dr Edith Summerskill, Minister of National Insurance.

Retirement pensions

A new feature of the National Insurance Act, 1946, was the increments on retirement pensions which employed and self-employed people could earn by continuing in regular work beyond the minimum pension age of 65 (men) or 60 (women). From July 16th the rate of these increments will be increased from 1*s* to 1*s* 6*d* for every 25 Class 1 (employed) or Class 2 (self-employed) contributions, paid on or after that date. The increments on a wife's pension paid on her husband's insurance will remain at 1*s* during his life-time, but if he dies before her any 1*s* increments he has earned for her since July 16th, 1951, will then be paid to her at the 1*s* 6*d* rate.

As a result of these bigger increments a man who now becomes 65 and continued in a full-time job until 70 years of age could earn increments of 15*s* for himself and 10*s* for his wife if she is not more than five years younger than him. This means that he and his wife could then qualify for a combined retirement pension of 75*s* a week for life. If his wife survived him her pension would then be 45*s* a week.

Going back to work

Pensioners who reached the age 65 (men) or 60 (women) on or after July 5th, 1948, are to be given a period of six months from July 16th to decide whether they wish to resume full-time employment in order to earn bigger pensions. Pensioners who take advantage of the opportunity will forgo their own pensions for the time being, but a wife awarded a pension on her husband's insurance will continue to draw her pension if the husband re-enters employment.

Fuller details of the scheme are given in a special leaflet N.I. 65 which can be obtained from any local National Insurance office.

Earnings rules

To encourage those pensioners who do not feel able to work full-time to take up part-time work, the amount which a retirement pensioner can earn without reduction of his pension will be increased from 20*s* to 40*s* a week from July 16th. Retirement pensioners between 65 and 70 (men) and 60 and 65 (women) must continue to report any earnings over 40*s* a week to their local National Insurance office.

The amount which widows drawing a widowed mother's allowance can earn without reduction of their allowance will be increased from 30*s* to 60*s* a week. For widows drawing the 26*s* widow's pension the amount will be increased from 30*s* to 40*s* a week. Earnings in excess of these amounts must be reported to the local National Insurance office.

Increase of benefit for dependent wives

As from July 16th the dependent wives of certain sick men will be able to earn 40*s* instead of 20*s* a week and still qualify as dependants for an increase in their husband's benefit. They are wives of men drawing sickness or injury benefit, or an unemployability supplement or a hospital treatment allowance in addition to an industrial disablement pension. Husband and wife must be residing together and the husband must be incapable of self-support and likely to remain so for a prolonged period.

Wives under 60 of retirement pensioners will also be counted as their husband's dependant and qualify for an increase in his retirement pension if they are earning not more than 40*s* a week. The only condition is that husband and wife are residing together.

The Ministry of National Insurance has no information about the beneficiaries who will be affected by this change. Those who think they may be able to benefit from it should therefore get into touch with their local National Insurance office as soon as possible.

[1] National Insurance Act, 1951 (Commencement) Order, 1951. No. 1213(C5). H.M.S.O., price 2*d*.

The Institute of Municipal Treasurers and Accountants

STATISTICAL RETURNS

The education service of county boroughs and the County of London, and the fire services provided by county borough, London County Council and joint county and county borough fire brigades, form the subject of two statistical returns[1] recently published by the Institute of Municipal Treasurers and Accountants. Each return is the second of its type to be compiled and each covers the year 1949–50.

The return on education shows that the total net expenditure of all authorities which was chargeable to rates and Exchequer grants amounted to £239,870,102; of this figure over £80 million went to primary schools, over £60 million to secondary schools, and the provision of milk and meals accounted for £22,686,322. The cost to each 1,000 of population of the education services amounted to £5,504 3*s*.

The fire services return lists the personnel and appliances of each brigade and analyses expenditure and income per 1,000 population. The 1949–50 rate-borne cost of London County Council brigades totalled £956,350, and the total expenditure of all authorities on their fire services during the year is given as £3,821,266.

[1] Education Statistics, 1949–50, 5*s* net, each additional copy 2*s* 6*d* net. Fire Services Statistics, 1949–1950. 2*s* net.

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The Institute of Actuaries

Of the candidates who sat for the examinations of the Institute of Actuaries at seven centres throughout the United Kingdom and Eire from April 26th to May 11th last, thirty-eight have qualified for fellowship of the Institute and fifteen for associateship.

Actuaries' Investment Index

The following table is a brief extract from the latest figures furnished to subscribers to the Actuaries' Investment Index, which is undertaken jointly by the Institute of Actuaries and by the Faculty of Actuaries in Scotland:

Class of Security	No. of Securities	Price Indexes (December 31st, 1938 = 100)				
		June 27th 1950	Dec. 27th 1950	April 24th 1951	May 29th 1951	June 26th 1951
British Government 2½ per cent Consols	1	97·4	100·7	94·9	93·3	91·3
Home Corporations	4	95·7	99·3	93·9	90·4	89·6
Investment Trust Debentures	4	97·0	97·6	97·3	96·6	94·7
Industrial Debentures: (Productive, Distributive and Miscellaneous) . ..	20	101·3	101·0	98·8	97·3	96·3
Investment Trust Preference Shares	8	97·9	98·0	93·1	92·1	90·5
Industrial Preference Shares: (Productive, Distributive and Miscellaneous)	65	103·2	103·9	98·4	97·7	97·8
Industrial Ordinary Shares:						
Productive	39	133·3	141·4	163·0	169·9	168·5
Distributive	24	177·9	184·6	206·3	208·7	212·4
Miscellaneous	39	123·3	121·8	128·3	133·1	132·4
All Classes of Industrial Ordinary Shares combined: ..	102	136·4	140·6	155·5	160·6	160·4
Ordinary Shares:						
Banks and Discount Companies	10	101·2	102·8	103·0	100·6	103·4
Insurance Companies ..	10	117·9	115·6	133·6	133·2	132·3
Investment Trust Companies	9	126·7	138·5	149·5	154·6	159·1

Construction: Geometric average, accrued interest in fixed interest securities and bonus issues allowed for.
'Productive': Aircraft, Building, Cotton, Electrical Manufacturing, etc.
'Distributive': Shipping Stores and Catering.
'Miscellaneous': Companies not included under any other heading.

Annotated Tax Cases

The first part of Volume XXX of the *Annotated Tax Cases*, edited by Mr Roy Borneman of Gray's Inn, Barrister-at-Law, is published today and contains reports, together with notes on the judgments, of the following eleven cases: *Goodwin v. Brewster* (C.A.); *Harrison v. Lilley* (C.A.); *Bury & Walkers v. Phillips* (Ch.D.); *Owen & Gadsdon v. Brock* (Ch.D.); *Littman v. Barron* (Ch.D.); *Silverts Ltd v. Commissioners of Inland Revenue* (C.A.); *Yates v. Starkey* (C.A.); *Owen v. Sassoon* (Ch.D.); *Standage Power Couplings Ltd v. Commissioners of Inland Revenue, Commissioners of Inland Revenue v. Homo Metals Radiant Boiler Co Ltd* (Ch.D.); *Murray v. Commissioners of Inland Revenue* (C.S.); *Commissioners of Inland Revenue v. Niddrie & Benhar Coal Co Ltd* (C.S.).

The annual subscription to the *Annotated Tax Cases* is 30*s* post free, from the publishers, Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

£100 Million in New Savings Certificates

Figures received by the National Savings Committee show that from the beginning of February to the second week of June last, sales of the new 3 per cent National Savings Certificate (ninth issue) reached £100 million, of which £50 million were sold through the Post Office, £40 million through the joint stock banks, and £10 million through trustee savings banks. Savings groups secretaries bought £7 million worth of the new certificates for their group members.

In a message expressing his satisfaction that sales of the new certificates have exceeded £100 million in just over four months, Lord Mackintosh of Halifax, Chairman of the National Savings Committee, says 'There must be no falling in these figures. With the autumn "Lend strength to Britain" campaign ahead, we should be able to keep up the level of sales and so sell £300 million worth of certificates in the year.'

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 22ND, 1876

Extract from a leading article

Solicitors and Accountants

A great deal of the disagreement which arises from what are supposed to be the conflicting interests of solicitors and accountants would be obviated, were it always borne in mind that the true spheres of the two professions are absolutely distinct. They often run parallel with each other; but properly managed they need never unduly converge, much less cross to their mutual confusion and loss. It is worthy of note that far greater number of complaints come from solicitors than from accountants, and the reason is sufficiently obvious. Before the science of accounts rose into a distinct profession, it was generally practised by solicitors, with the aid of more or less qualified clerks; and a pretty muddle they made of it between them. Now, however, they rarely attempt to deal with figures, from the fact that in comparison with trained and experienced accountants, their incompetency becomes so very apparent that competition is out of the question. On the other hand, the incompetency of accountants to deal with matters requiring for their discharge a thorough knowledge of law, is equally patent; and, we may add, it is very seldom indeed that they are found trespassing upon what are strictly legal preserves.

MOTOR — FIRE — CONSEQUENTIAL LOSS

MOTOR UNION INSURANCE COMPANY LTD

10 ST JAMES'S STREET, LONDON, SW1

The Accountant

ESTABLISHED 1874

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THE ROYAL COMMISSION

THE call by the Royal Commission for evidence as to the advantages of linking income-tax with social security payments and allowances, has resulted in the submission of a number of schemes on these lines. However, the failure of all these schemes to arouse any enthusiasm in the Inland Revenue has now been made manifest, both by that department's Memorandum on the subject, and by the oral evidence of its DIRECTOR OF STATISTICS AND INTELLIGENCE. One might have expected a reluctance to introduce revolutionary changes, and therefore a certain amount of special pleading, but it is surprising to find such a devotion to the contributory principle in insurance, accompanied by such an anxiety to avoid deterring people from earning money and paying tax, matters which might have been expected to be outside the Revenue province. The spectacle of the Inland Revenue quoting the Beveridge Report against the Liberal Party is a strange one.

While supporting a continuance of the abstruse calculations which now determine a worker's tax liability, the Memorandum asserts that he is not interested in arithmetic but only in the net sum remaining in his pay packet; it is sure that a deduction of 5*s* in the £ would be a great disincentive, even though accompanied by cash allowances, and paints a sombre picture of the worker queueing at one window for his pay, and at another for his allowance. It is sure that all those millions of earners who now pay no tax are necessarily undeterred by such tax, thus assuming that the failure of their earnings to exceed their income-tax personal allowances is in all cases purely fortuitous. It takes no account of those workers who have a fixed traditional standard of living which they feel obliged to maintain, irrespective of the relation of their gross earnings with their net earnings after tax. It seems to regard the question of disincentive as a purely objective one, introducing the expression 'psychological disincentive' in relation to the special case of a jump in the rate of tax at a particular margin. It regards the retention of some of the existing national insurance benefits as fatal to a scheme even to replace fixed weekly contributions by a flat-rate tax. It makes the point that under the scheme it criticizes, a return form would have to be sent to all persons whose incomes exceed £600 a year without saying how many of such persons do not already receive these forms. Not all of them can have a wife and five children.

Perhaps the most startling thing which emerged at the Commission's second meeting was the fact that the issue of six family allowance books can constitute a clerk's whole working day. If the same tempo obtained in the Inland Revenue, the income-tax would never be collected.

DEPRECIATION AND THE FUTURE

by H. HODGSON, A.C.A., A.C.W.A.

It is the author's view that earnings which are enhanced by the increasingly inflated value of output resulting from the use of plant, are not correctly expressed until they are offset by provision for correspondingly increased replacement cost. Thus, he holds, to distribute profits without making this provision and to rely on fresh borrowing to repair the inevitable gap in funds when replacement becomes necessary, is both financially and economically unsound.

STEEPLY rising prices during the past few years compel attention to the financial problem involved in providing for the replacement of assets at the end of their useful life. Merely to replace 'original cost' by means of depreciation charges is becoming more and more inadequate, and the problem is aggravated in the case of some of the nationalized industries, whose 'acquisition cost', often an apportionment of a lump sum purchase price, bears only the broadest relationship to the original purchase price of the assets.

The effect of inflation is felt most keenly by those industries whose assets consist of large units of plant of relatively long life. Because of the time-lag in replacement, the temptation to ignore the advance in cost is often present and the figures involved are considerable. In cases where assets consist of numerous small items with constant replacement taking place, the danger is usually not so great, as the figure of 'original cost' is automatically much closer to that of replacement. Nevertheless, the feature is still present and should not be ignored.

It is the purpose of this article to examine the fundamentals of the problem in its accounting aspects and to try to determine a reasonable approach to it, which will be financially and economically sound and at the same time practical. Above all it is desired to question the viewpoint that increased replacement costs should always be met by increased borrowing.

Wages the Key

The key to the problem lies in the consideration of wage rates, for all costs, both of consumer and capital goods, are essentially related to this factor.

The reward of labour has increased steadily from the beginning of man's history until the present day, and there are lively indications that it will continue to do so. The inference is that costs may always be expected to increase, from the long term point of view, and are unlikely to decrease. Strict comparisons between periods are difficult because the relatively modern method of payment in money has (rightly) replaced the former practice of payment wholly or partly in kind.

This, however, is merely an obstacle to calculation and does not affect the contention. It seems clear that the reasons for the increasing reward are twofold: (1) the gradually depreciating value of the purely monetary expression of the man-hour, i.e. gradual inflation causing rising rates of pay, and (2) the enhanced effectiveness of the man-hour, due to the use of mechanical assistance and the techniques of organization.

The recognition of this distinction is of fundamental importance to both industrialists and accountants in dealing with fixed assets from the point of view of depreciation.

Inflation and Asset Values

The treatment of the inflationary feature is the cardinal requirement, and to be effective it demands a clear recognition of the true significance of money in relation to asset valuation.

It is a phenomenon of business, and one which the accountancy profession has been prone to worship in the past, that once a cash figure is established it is regarded as a sacred truth. It is forgotten that the purchase price of an asset represents its value *at a particular stage in the spiral of inflation* and does not represent the asset itself. The real cash value of an asset is determined by its earning power in the future and not in relation to its capital cost in the past. Herein lies the essence of the justification for providing for replacement value out of current profits. It is a truism that all wealth represents a title to past, present or future man-hours.

The technical problem of the accountant in relation to depreciation is to measure the rate of consumption of invested man-hours in the conduct of the business, and to assess the true earnings which result from their use.

The Real Value of Investment

Both in originating the business and in improving its methods, management will seek capital and invest it in plant and equipment and the prices to be paid for the assets concerned (as well as the assessment of their economic value, i.e. the potential savings in terms of manual labour) will be calculated in relation to the prevailing cost of labour at the time they are bought. The tide of gradual inflation rolls on, however, and wages continue to increase, so that every long-lived asset will naturally increase correspondingly in real value (i.e. its worth in man-hours) throughout its life, subject to exhaustion in productive processes. This advance in real value is confirmed by the fact that the savings the asset was designed to effect will also increase step by step as wage levels rise. In reality, therefore, when labour-saving plant is bought, management is buying future man-hours the value of which will be governed by the degree of inflation prevailing at the time the saving is actually made.

As a result, a super-profit is yielded by a saving which is thus inflated compared with original cost, and to distribute that super-profit without providing for the correspondingly inflated cost of replacing the asset is financial folly.

Effect of Cost Distortion

Furthermore, there is a distinct danger that a manufacturer may be deceived by his apparent ability to produce successfully in competition, when in fact the high cost of inefficient management is being offset by under-provision for the replacement of assets. Of course he will be abruptly disabused when the time for renewal arrives, but it could well be that by then his business has irreparably decayed.

The effect of refusing to include depreciation in costs, or to charge it to profit, on any other basis than the writing off of original cost, is to deny to the capitalist the same rate of increasing value for his investment of past man-hours (i.e. savings) as accrues to the worker for his contribution of present man-hours. The manufacturer who does so is not valuing one portion of the wealth employed on the same forward basis as he is valuing the other, notwithstanding that the results of both of them will return to him valued in the same terms.

There are two grave risks attendant upon this practice: (1) to bring an individual business to a standstill through under-capitalization and, (2) to make it difficult for others to trade effectively, by exerting an unwholesome influence upon price levels.

Moreover, from the economist's point of view a full and accurate assessment of prevailing inflation tends to be prevented by the understatement of costs (and therefore prices) based upon this misconception.

The Bitter Pill

There is, of course, great and natural reluctance on the part of most manufacturers to adopt the more vigorous point of view, for its effect is promptly to shrink profit margins if not to extinguish them altogether. It is much easier to accept the more comfortable advice that the proper way to provide for this 'run of the mill' inflation is by the provision of extra capital when the time comes. It is forgotten, of course, that when that time does come the inevitable adjustment to cost will come with it, with much more disconcerting effect than if the real position had been faced and proper provision made throughout.

Technical Problems

The great problems connected with the establishment of a fully regulated financial policy are (*a*) to know the correct provision to make, i.e. that which, whilst being sound, does not throw too heavy a burden upon ownership at any given time, and (*b*) to avoid violent fluctuation in either costs (with their reflection upon selling prices) or profits. The settlement of these questions demands both a stable basis upon which calculations can be made and a comprehensive formula to give effect to the conclusions. It is the intention, in the remainder of this article, to suggest a possible avenue in each of these directions.

One further difficulty exists in that a complete revaluation of assets on the basis of their replacement value is both costly and cumbersome as an annual exercise, yet at first glance there seems to be no other method of assessing the correct figure upon which depreciation is to be calculated. A simpler alternative is submitted.

Costing Requirements

The costing requirement is fairly simply disposed of by the calculation of the annual sum needed to replace current assets at the end of their working life, at current replacement costs, and the inclusion of this figure in product costs upon which selling prices are based.

Financing Requirements

The financial problem on the other hand is very much more complex and needs for its full solution recognition of a feature which is seldom mentioned. This is that although costs may be advanced in strict relationship to replacement values, at the end of the asset's life only half the increase required will have been provided by this means, assuming an even progression. (See fig. 1, A, at the end of each life-cycle.)

Complete financial provision for replacement will therefore need: (1) recovery of original cost; (2) increased depreciation charges year by year in step with inflation; (3) extra provision equal in amount to the increased charges to make good the under-provision in the earlier years; (4) the provision of a separate sum required to make up any lack of funds due to adherence to the 'original cost' basis in the past.

It may well be impossible to provide the last item from current earnings and in any individual case correction may have to be sought by recourse to fresh borrowing.

Indeed it will be felt quite often that even to make the 'extra' provision referred to in (3) it is too much to ask a business to provide out of earnings and that the proper way of raising the money is, again, to borrow it. The determination of this problem rests at the highest level of ownership policy, but if outside help is not to be sought at some time in the future, there is no alternative to restricting the distribution of profits accordingly.

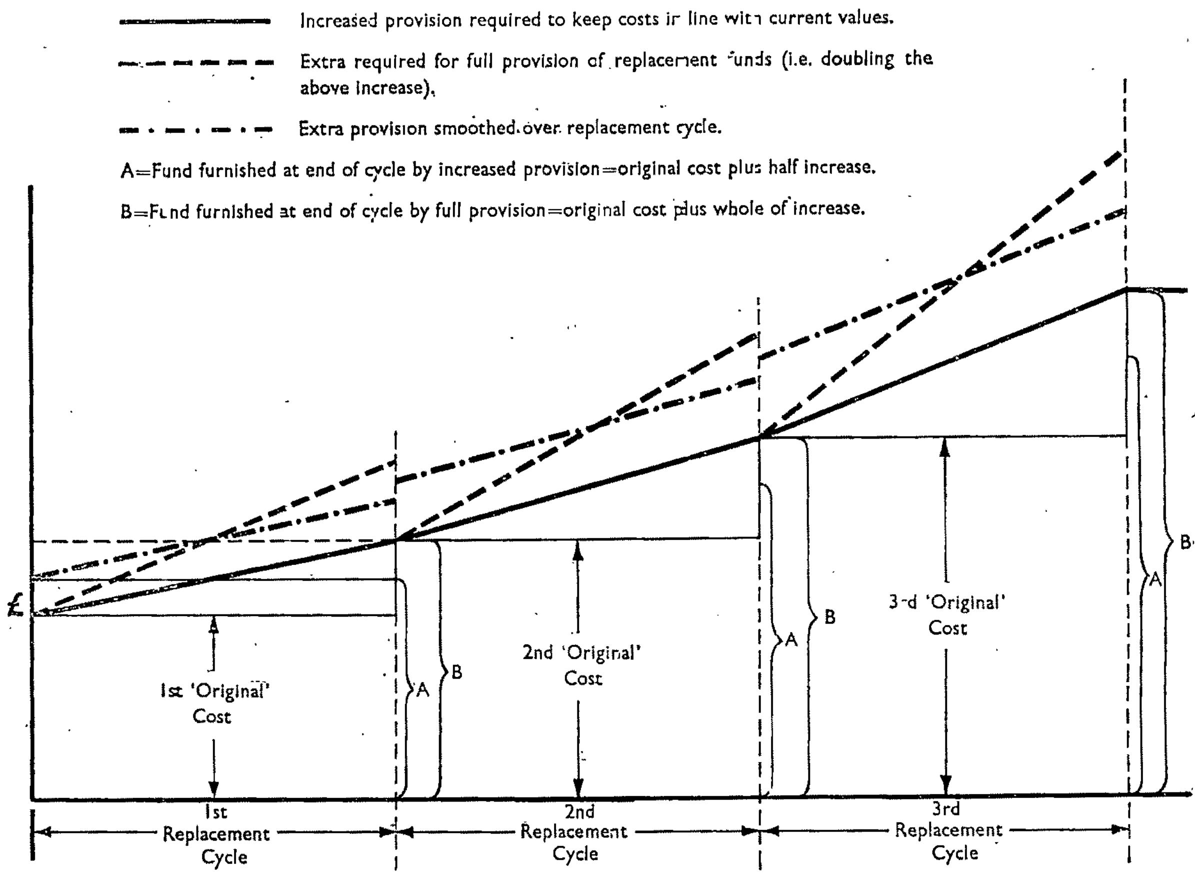

FIG. 1
(Geometric progression at 40 per cent per cycle)

Assessing the Degree of Inflation

In seeking a basis of calculation it must be borne in mind that we are dealing exclusively with the inflationary element of cost. This is the feature which is constantly at work in causing prices to rise, but it is at the same time being retarded in its effect by improved methods of manufacture, which are always at work in the opposite direction. The important distinction is that whereas the increase is certain and therefore should be anticipated, the mitigating advantage is

far from being predictable, either in time or value, and should therefore be ignored.

In order to establish a useful indication of the degree of inflation existing at any one time in relation to any other, or to attempt to judge the likely movement in the future, it is necessary to find an economic unit whose value reflects the pure effect of depreciating money values and is free from the influence of manufacturing methods. Moreover, it is necessary to know the main trend of inflation, and for this purpose records of the value of the unit selected must be available over a long period. The longer the period the better, for experience suggests that wars tend to cause not only overall acceleration in the rate of inflation, but temporary distortion resulting in surge and decline during and after hostilities. (The decline which could have been expected to set in after the surge caused by World War II was, it would seem, artificially arrested by the 'cold war', the Korean outbreak and current re-armament.) It is not suggested that the significance of these distortions should necessarily be ignored in the planning of replacement finance, but when they are present their relationship to the main trend should be clearly appreciated.

A Serviceable Unit of Measurement

Possibly the best available measurement of money in this country is the value placed upon agricultural land, i.e. the price per acre. Needless to say the samples selected should be situated in the deep country free from the influence of urban development. Not only is the acre of agricultural land a fundamental economic unit, but records of prices at which it has changed hands throughout the centuries are available in many collections of archives, notably those of the universities and their colleges. Carefully selected samples would reveal the true march of inflation and would thus yield reliable comparison between values obtaining at different dates. Furthermore, though with proper safeguards, the curve can be extended to provide a firm indication of the likely path for the next few years. In no other way does it seem possible to obtain a clear view of the relationship of present-day prices to the normal order of things which, despite every appearance to the contrary, will some day be restored.

Basis of Computation

With this piece of equipment it is possible to begin the computations. The first task must be to make a full inventory of assets and to have them competently valued at today's replacement cost (i.e. today's value of the actual assets listed, not of any improvement). This requirement is absolutely necessary to provide the solid fact upon which the whole operation will rest.

Secondly the assets should be grouped according to the lengths of their several life-cycles. In many instances of course, where the assets are similar, or where a single group dominates the whole, one period may suffice, but greater precision in the outcome will follow a more careful segregation where several groups of plant are found to differ in length of service. It will also be necessary for an estimate to be made of the average age of the constituents of each group, for use in determining (*a*) the amount of provision which will be required in respect of back years, and (*b*) the hypothetical (or actual) date of replacement. Of course, if the plant consists of a relatively few large items individual calculations will be made.

The calculation of the current annual depreciation charge for inclusion in costs is a simple one. It consists of dividing the total value of each asset group by the number of years in its respective life-cycle. Thus the true economic cost of the company's product may be determined and selling prices scrutinized for inadequate profit margins.

Overhauling Previous Under-provision

The question of inadequate replacement provision in the past can now be tackled. There are two available methods of calculating the increase in the value of assets. The first is by comparing the revaluation mentioned above with original cost, where this is available.

Inconceivable as it may seem to the modern accountant, there are many instances where original cost is not known, e.g. where all assets have been charged to one account which has been written down over years without detailed records being preserved. In these circumstances recourse must be had to the curve of inflation trend prescribed above. When the (weighted) average age of the components of an asset group is known, the relationship of the original cost of the group to present-day values can be read straight from the inflation curve at the point of time determined by the average age.

Whichever method is used to determine the increased value, the amount required to be picked up to provide for it in respect of the period elapsed since acquisition can readily be calculated. It is submitted that this provision should, in

principle, be made out of earnings, though it may well be that in many cases the amount involved is too large and borrowing is the only recourse.

Future Control

Once the major decision is taken to reconstruct finances along the lines suggested and the foregoing steps are taken, future control of the situation will be relatively easy, at least as regards provision, both in costs and finances, for the 'increase' in value. The problem of frequent revaluation can be overcome by relating the index of inflation at the time of the basic valuation to that at any subsequent time, and recalculating the asset values accordingly. It is suggested that a professional revaluation might well be instituted at intervals of, say, five years, so as not to allow the operation to depend too much upon pure calculation.

A Special Problem in making Full Provision

When it is also decided to make complete provision for replacement out of current earnings the problem of handling the 'extra' provision (i.e. the doubling of the step by step provision for current increases) presents a new difficulty.

At first glance there would seem to be no reason why a simple doubling of the increased provision should not suffice and indeed, as far as mere financial provision is concerned, it would be adequate. It would, however, cause pronounced unevenness in the profits available for distribution due to the steady mounting of the 'extra' provision as replacement date approached, and the sudden contraction immediately after replacement. Reference to Fig. 1 will perhaps illustrate the point by the 'saw tooth' profile of the dotted line representing the extra provision required in each cycle.

To avoid this undesirable condition, which becomes apparent only when the problem is projected over several life-cycles, some means of smoothing out the extra provision must be sought. The best remedy seems to lie in extrapolating the curve of inflation trend to the point of the next expected replacement date. This, whilst it is unlikely to be supported by events with absolute precision, will indicate a relationship to current values which can reasonably be expected to materialize. To divide the total 'extra' provision, which will then be shown to be required, by the years involved in the life-cycle will yield a sum which can be set aside annually to give the required amount at the next replacement. In the case of an arithmetical progression of inflation, this annual instalment would eliminate any bump at replacement date, but if the progression is geometric, as in the illustration, a slight bump will occur, but the effect will be greatly minimized by this 'smoothing' treatment. (See Fig. 1.)

Individual Treatment in Every Case

Whilst these suggestions are advanced in order to provide a reasonably practical approach to the average problem, no set of general rules can be laid down because the effect of facing up to the situation will differ with every company according to its finances, the book value of its current assets, and the selling price structure of its industry, but no time is too soon to lay plans for financial reorganization with this end in view.

Two things, however, are favourable. In many cases assets have been written down in the past to nominal values, and selling prices have not always been watered down to match. A certain amount of elbow room is thereby available.

Secondly, the present limitation of dividends must mean, if it works at all, that there is some margin between the profits earned and those distributed.

The accounting procedure will require to be designed in close conjunction with management policy in handling the recovery of depreciation as content of sales. Where the depreciation included is in fact based on replacement value rather than on original cost, the marginal provision is often placed to a special reserve account and shown separately in the balance sheet. This treatment has two advantages: (1) it clarifies in the records the writing off of original cost, on the one hand, and the handling of the marginal provision for replacement, on the other; and (2) the distinction enables the valuation of stocks to exclude or include, as desired, the replacement margin.

Finally, it must be said that the operation has to be considered quite without reference to tax considerations. The effect of this might be cruel in certain cases, but the remedy is to be sought in other ways. The somewhat narrow conventions of the Inland Revenue attitude should not be allowed to interfere with vigorous management policy. Whilst that attitude towards this major problem remains intransigent, the only recourse of a free manufacturer must be to adjust his selling price to give him the necessary margins.

The tag that 'the customer pays in the end' is not currently true in many cases. His own wages are rising on the flood and despite all the hardships of the present situation, he is buying many of his requirements at a cheaper rate than he should, at the expense of the capitalist.

WEEKLY NOTES

An Institute Luncheon

The President and members of the Council of The Institute of Chartered Accountants in England and Wales entertained Lord Hurcomb, Sir Edward Reid, Mr P. F. Brundage, Mr Geoffrey Crowther, and Mr C. P. C. Smith at a luncheon held in the Oak Hall of the Institute on Tuesday, July 17th, 1951.

Companies and Residence: Profits Tax

For tax purposes an individual can be resident in more than one country. Does this apply to a company for which the test of residence is the place of its central management and control? According to Mr Justice Harman it does, although a mere trading alone would not establish residence if the central management and control were elsewhere. (*Union Corporation Ltd v. C.I.R.; Johannesburg Consolidated Investment Co Ltd v. C.I.R.;* and *Trinidad Leasehold Ltd v. C.I.R.* (*The Times*, July 21st, 1951).)

The main question in these three cases was the interpretation of Section 39 of the Finance Act, 1947, which provides special relief from profits tax in favour of persons resident outside the United Kingdom.

Subsection (1) deals with a person 'resident outside the United Kingdom'. Subsection (2) refers to a body corporate which is 'not ordinarily resident in the United Kingdom'. Subsection (3) refers to bodies corporate 'ordinarily resident outside the United Kingdom', to which subsection (1) or subsection (2) of the section applies. Given the fact that a company can have two countries of residence, and considering the change in language between subsection (1) and subsection (2), the companies claimed that the relief granted by subsection (1) applied to all persons ordinarily resident abroad, whether also resident in the United Kingdom or not. His lordship rejected this claim, holding that in Section 39 the two expressions 'ordinarily resident outside' and 'not ordinarily resident in' were synonymous.

The Flexible and Variable Budget

One of the papers submitted to the Ninth International Congress for Scientific Management, held this month at Brussels, was a report on the flexible and variable budget, prepared on behalf of the Nederlands Instituut voor Efficiency by Professor Dr Abram Mey, professor of business economics at the University of Amsterdam, and accountant, N.I.v.A., in collaboration with Mr E. Beekman, accountant, N.I.v.A., Amsterdam. It was drawn from information given by the national committees of U.S.A., Australia, Belgium, Canada, Denmark, Finland, France, Great Britain and the Netherlands and the differing viewpoints of each were skilfully blended into a most interesting dissertation. The flexible budget, according to the definition of the American committee, is a schedule of expenditure, predetermined by executive skill, which should reflect both external changes in trade and deviations in the internal policy of the company. The variable budget is regulated mainly by fluctuations in output. Among other problems considered at length in the paper, was the question of replacement values and the effect on the budget of the provision therefor.

The Banks and the Royal Commission

The British Bankers' Association has submitted a memorandum to the Royal Commission on the Taxation of Profits and Income. It points out the highly disincentive nature of present direct taxation, particularly in the failure of the taxation code to take into account the special difficulties caused by inflation, and it disagrees with the conclusions of the Tucker Report on the latter subject. We hope to deal more fully with the memorandum next week.

Pakistan's Sterling Balances

Details were given in the House of Commons last week of the recent discussions with Pakistan about the release of sterling balances. It will be recalled that one of the ways in which this country is to aid in the development of certain areas in the Far East, under the scheme known as the Colombo Plan, is by the release of sterling balances.

The arrangement with Pakistan is not unfamiliar in broad outline. Pakistan will transfer £30 million sterling to its number one account and this sum will be considered as a minimum currency reserve. So far as the number two account is concerned, the sum of £4 million a year will be released for six years under the Colombo Plan. If Pakistan finds it necessary to make additional calls upon its number two account there will be consultations with this country before this is done. In addition to the releases from this account, the United Kingdom is to sell Pakistan £4 million as an addition to the independent reserve which that country holds as a backing for its currency.

The principles of this scheme are the same as those worked out in the agreement with India, although the sums involved are smaller. It was not likely, given the India scheme as a precedent, and the need for this country to make some contribution towards the financing of the Colombo Plan, that any other arrangement was possible. The fact remains, nevertheless, that there is ample scope under the terms of the agreement for Pakistan to alter the amounts involved in its favour. It is doubtful, should the time ever come for such matters to be discussed, whether this country will be able to put up effective counter-proposals which will prevent further inroads on blocked sterling.

Arms and the Estimates

This issue went to press before the Chancellor of the Exchequer opened the debate this week on the economic state of the country. But even on the eve of the debate there is evidence that official calculations are not going to work out according to plan. At the time of the Economic Survey, at the end of March, imports were expected to increase by £750 million this year due to increases in import prices alone. Lord Pakenham offered a revised estimate of £950 million two weeks ago. For the first half of the year, the excess of imports over exports was about £555 million on the conventional basis of valuation, or, say, around £350 million if allowance is made for the cost, insurance, freight component in the price of imports. The inference to be taken from the survey was that a gap for the whole of the year of around £450 million could be closed by higher invisible earnings and higher receipts from exports only with the greatest difficulty. Most of this gap has been created with the year only half-way through its course.

This week, the Minister of Supply declared himself satisfied that the rearmament programme is now running to schedule and that orders are being placed and handled at a rate sufficient to put this year's defence task through. This view did not go unchallenged in the House of Commons, but if it is anywhere near an accurate appreciation of the situation – and the Minister is in a better position than his critics to assess the rate of progress – the full impact of the defence programme is about due to fall on the economy.

So far since the Budget there has been a steady increase in prices, but there has been no noticeable decline in the standard of living. It remains to be seen if that impact is going to increase over the next few months. There are some signs, too, that the hoped-for increase in productivity this year of 4 per cent, which was expected to take some of the strain of the rearmament programme, is going to be difficult to realize.

The economic system is therefore in the peculiar position at the moment, to judge from such evidence as there is, that the balance of payments position is worse than was expected, the defence programme is doing all that was expected of it, production may be lagging fractionally behind target and yet the public is not feeling the strain that it should from such conditions. What has given way? It could be exports. Goods which should have gone abroad may be finding an easier, readier home in the domestic market. The next few months will show if there is some truth in this possibility. If there is, the situation is ominous. Part of the strain has also been taken by the import surplus which has mopped up some of the income of consumers and industry. This, too, is disquieting for slender gold reserves should not be used to prop up the standard of living under present conditions.

Lower United States Gold Sales

The reverse aspect of the worsening external trade position of several European countries, of which the United Kingdom is a conspicuous example, is the drop in the gold losses of the United States. Figures have now been issued by the United States Treasury setting out the actual movement of gold in the first two quarters of this year.

In 1950, sales of gold amounted to $1,797 million and were notably concentrated in the second half of the year. In the first quarter of this year sales amounted to about $897 million and in the second quarter they were down to some $149 million. In the second quarter, the United States also bought $94 million of gold so that the outflow, which took on sizeable proportions when the Korean war started, has just about come to a stop. It does not seem likely that it will be resumed on a large scale at least for some time. Volatile capital took its chance to move when the war broke out, and any pressure to buy gold coming from governments seems most unlikely, to judge from the balance of payments trends which are developing at the moment in Western and North-western Europe.

This country remains the largest customer, at least to the date covered by the figures, but that does not mean a great deal in the face of such a large decline in the total export of gold.

Lower Shipping Freight Rates

For the first time since the outbreak of the Korean war last year a notable decline has been recorded in the level of shipping freight rates. According to the Chamber of Shipping index, there was a fall of 12 per cent in the level of rates over the month of June.

This abrupt change after the index soared from just over 70 to 179 in a year has apparently been brought about by a variety of reasons. Ministry of Food requirements for shipping sugar were met without putting a strain on available tonnage, there has been an accumulation of shipping in Indian ports which has had to be moved in ballast and there have been further releases from the United States reserve fleet of merchant tonnage. Apart from such factors, however, there is no doubt that the armistice talks which became imminent as the month progressed cast doubt on the prospect of sustained shipments of men and armaments to the Far East.

The outcome of the armistice talks is far from conclusive at the moment, but even if there is no cease-fire it seems unlikely that the upward movement of freight rates would be resumed on the same spectacular scale as occurred in the recent past. The disposition of the world fleets is probably able to deal fairly effectively with any foreseeable demand for tonnage arising in the course of the next few months.

A shaking-out process was due in freight rates just as it is needed in other markets to arrest the headlong rush of international prices. A long-term softening of freight rates would be deplored but the market could stand a decline without seriously impairing the profitability of tonnage.

FINANCE AND COMMERCE

Stock markets have suffered considerably from the uncertainties which preceded Mr Gaitskell's statement on the economic situation. Equity values have fallen sharply from the high levels reached earlier in the summer. Markets are still tender and nervous.

Courtaulds' Accounts

The accounts of Courtaulds Ltd, which we reprint this week, follow broadly the principle of balance sheet construction recommended by the Institute – a succinct statement of the position with the detail in separate schedules. Parent and group figures are also in one context instead of in separate accounts.

This confining of the balance sheet to the main headings of assets, capital and reserves is a new development in Courtaulds' accounts this year. The chairman, Sir John Hanbury-Williams, points out in his statement that the Companies Act requires the publication of so much detail as to make the accounts of a company of the size and complexity of Courtaulds 'appear rather complicated'.

He suggests that the form now adopted 'combines reasonable brevity with clarity'. The new form will be standardized for future years but the directors are prepared to incorporate improvements if they feel that changing circumstances make further change in the accounts worth while.

Inflation Problems

Lengthy reference is made by Sir John to the problems created by inflation. Material increase in stocks and debtors shown in this year's figures, he says, 'do not connote increased real values since the purchasing power of money in this country has followed a downward trend, particularly during the past year'. Actual quantities of stocks, he adds, are currently at a low level. The reserve towards the increased cost of replacement of materials consumed will be noted.

In regard to fixed assets, it is necessary, he says, to appropriate large sums to meet the rising cost of capital replacements in addition to the adequate provision for depreciation and obsolescence based on original costs.

Until one takes into account the increased cost of replacement of fixed assets and of raw material stocks, general stores, etc., Sir John continues, the figures in the consolidated profit and loss account, which shows a material improvement, are 'somewhat inconclusive'.

Whether these items are a proper charge against profits or an appropriation out of profits is, he feels, a matter of opinion, but there can be no doubt, he says, that it is necessary to provide for these items before any profit can be struck which can be regarded as available for distribution.

Revaluing Fixed Assets

The possibility of a revaluation of fixed assets comes under consideration of the board from time to time, but, 'as the future is still somewhat obscure,' says Sir John, 'we do not feel that the time has yet come to make any modification in this respect'. Stockholders are told that it may be necessary to raise new money for the business but no definite plans have yet been made. It may be that this operation will be combined with a share capital reconstruction, in which connexion Sir John points out, that of the £71 million (book values) of net assets, only £32 million is represented by capital stock, although the remaining £39 million is 'just as much proprietors' capital as the capital stock figures of £32 million'.

At one point in this report we suggest that the board is unnecessarily reticent. Reference is made to the satisfactory development of British Nylon Spinners Ltd, a company in which Courtaulds is a fifty-fifty partner with Imperial Chemical Industries. British Nylon Spinners, it is stated, is now on a dividend-paying basis, but there is nothing further to show whether the dividend is 1 or 100 per cent.

There has been a considerable public interest in the development of the nylon business, strong enough in fact to warrant a well-known city editor promising his readers that he would get the news for them in due course. Presumably it is merely a question of inspecting the accounts filed with the Registrar.

Surely, however, the main points of what is filed at Bush House could go into the report.

Plans to Revalue

The directors of The British Plaster Board Ltd intend to go ahead with their plans for revaluing the company's fixed assets. This decision is made 'in the light of the widening acceptance by industry of this principle'. Meantime, an appropriation has been made to a central obsolescence and replacement reserve as a first step in bringing the funds available for the eventual replacement of assets into line with the realities of the situation.

In preparing the next accounts, detailed estimates will be made to arrive at probable replacement costs so far as they can be judged at present. The life of the assets will also be calculated as closely as possible. If circumstances then permit, the board's intention is to write off from profit and loss account a sum equal to the estimated income-tax wear and tear allowances plus an additional amount to bring the total provisions up to the amount required for eventual replacement.

Money Market

Applications for Treasury bills totalled £323,845,000 on July 20th and the market obtained 60 per cent of its stated requirements against 61 per cent previously. The average rate hardened slightly to 10*s* 2·84*d* per cent. This week's offer is maintained at £230 million. There is again no call against Treasury deposit receipts.

COURTAULDS, LIMITED AND SUBSIDIARIES

Consolidated Profit and Loss Account for the year ended March 31st, 1951 (See Note 1)

(Notes on page 8)*

	1951	1950 (as adjusted)
	£	£
Group Balance from Trading and Investment Income, after taking into account the amounts of Income and Expenditure and the charges set out in Schedule 1 below, but before charging Taxation	17,270,823	7,994,741
Deduct: Group Charge and Transfer to Reserve for Taxation as set out in Schedule 2 below	9,049,664	3,787,193
Group Balance from Trading, etc., after Taxation	8,221,159	4,207,548
Deduct: Interests of Minority Shareholders therein	121,297	41,776
Courtaulds Limited, Interest therein	£8,099,862	£4,165,772

	Courtaulds, Limited 1951	Courtaulds, Limited 1950	Group 1951	Group 1950
	£	£	£	£
COURTAULDS LIMITED, INTEREST IN GROUP BALANCE (as above) ..	8,099,862	4,165,772	8,099,862	4,165,772
Deduct Amounts retained by Subsidiaries	1,556,527	614,851		
BALANCE BEING PROFIT OF COURTAULDS LIMITED FOR THE YEAR	6,543,335	3,550,921		
Add Balance of profit brought forward from last year	488,702	405,697	1,150,477	1,170,602
Over-provision for taxation in previous periods	45,532	13,733	270,966	218,999
together	£7,077,569	£3,970,351	£9,521,305	£5,555,373
Deduct Transfers to Provisions and Reserves (see Notes 3 and 4):				
(1) Reserves:				
(*a*) towards increased cost of replacement of fixed assets	1,704,692	1,701,679	1,976,297	2,081,311
(*b*) against increased cost of replacement of materials consumed ..	2,600,000	—	2,710,774	—
(2) Provision for staff pensions	451,000	—	451,000	—
(3) Provision for obsolescence (previous periods)	—	569,970	—	569,970
(4) Revenue General Reserve	—	—	198,950	488,855
(5) Capital General Reserve	—	—	339,839	10
(6) Reserve towards increased cost of replacement of fixed assets (previous periods)	—	—	899,318	51,000
(7) Reserve for tax deferred by initial allowances (previous periods) ..	—	—	39,750	—
(8) Reserve against British, Dominion and Commonwealth Government Securities	—	—	—	3,750
	£4,755,692	£2,271,649	£6,613,928	£3,194,896
Leaving an available balance of Profit of	2,321,877	1,698,702	2,905,377	2,360,477
Deduct Dividends (less tax) of Courtaulds Limited (see Directors' Report)	1,665,000	1,210,000	1,665,000	1,210,000
Balance carried forward included in Schedule 7 to the Balance Sheet	£656,877	£488,702	£1,240,377	£1,150,477

Schedule 1 referred to above:

(being items already taken into account in arriving at the figures first stated in the Consolidated Profit and Loss Account)

	1951	1950
	£	£
Income from:		
Trade Investments	1,341,232	332,111
Government Securities and Other Investments	395,698	234,970
Exchange Profits	49,373	152,885
Expenditure and Charges:		
Provisions for Depreciation (see Note 9) ..	2,484,748	2,497,191
Provisions for Obsolescence	250,000	250,000
Deferred Repairs and Renewals	—	31,378
Remuneration from all sources of the Directors of Courtaulds Ltd in connexion with services to Courtaulds Ltd and Subsidiary and Associated Companies:		
Fees of Directors while not holding salaried executive appointments ..	20,821	21,500
Other Emoluments being salaries of Directors while holding executive appointments	102,625	115,250
Directors' and past Directors' pensions arising from executive appointments ..	33,688	29,500
Auditors' Fees and Expenses	16,433	14,029

Schedule 2 referred to above:

	1951	1950
	£	£
Group Charge for Taxation:		
United Kingdom Taxation:		
Profits Tax	2,223,366	1,050,626
Income Tax based on profits for the year to March 31st, 1951 (see Note 1)	5,823,272	1,770,818
Taxation abroad	381,294	10,386
	8,427,932	2,831,830
Add Amount transferred to Reserve for Tax deferred by initial allowances	621,732	955,363
Total as above	£9,049,664	£3,787,193

* Not reproduced.–Editor.

SCHEDULES TO BALANCE SHEETS, MARCH 31st 1951

COURTAULDS LTD 1950 £	COURTAULDS LTD 1951 £		Reference below	COURTAULDS LTD AND SUBSIDIARIES 1951 £	COURTAULDS LTD AND SUBSIDIARIES 1950 £
1. FIXED ASSETS					
13,703,629	14,565,615	**Land and Buildings**	A	18,216,528	17,251,265
2,670,102	2,997,322	Provisions for Depreciation	B	4,291,974	3,818,417
11,033,527	11,568,293	Balance		13,924,554	13,432,848
29,551,080	31,317,218	**Plant, Machinery and Equipment** ..	A	39,379,276	36,951,150
6,193,754	6,941,693	Provisions for Depreciation	B	11,690,131	10,321,736
23,357,326	24,375,525	Balance		27,689,145	26,629,414
971,363	994,871	**Houses and other Property** ..	A	1,067,525	1,038,635
278,529	322,644	Provisions for Depreciation	B	345,985	297,097
692,834	672,227	Balance		721,540	741,538
44,226,072	46,877,704	**Total Fixed Assets**	A	58,663,329	55,241,050
9,142,385	10,261,659	Total Provisions for Depreciation stated above	B	16,328,090	14,437,250
35,083,687	36,616,045	Balance		42,335,239	40,803,800
		Less Provisions in connexion with Fixed Assets of Courtaulds Ltd for Depreciation as at January 1st, 1940, and			
12,285,219	12,162,899	Provisions for Obsolescence to date	C	12,162,899	12,285,219
£22,798,468	£24,453,146	Net Amount carried to Balance Sheet		£30,172,340	£28,518,581

A. Fixed Assets are stated as follows:
(*a*) Courtaulds Ltd:
At cost, or, if acquired before the time of an independent valuation carried out in 1938-39, on the basis of replacement costs as new in 1938-39.
(*b*) Subsidiaries, at cost.

B. Provisions for Depreciation deducted from the relative Fixed Assets existing at March 31st, 1951, are, as regards Courtaulds Ltd, provisions since January 1st, 1940, and, as regards Subsidiaries, provisions since the dates of acquisition of the Shares therein.

C. The Board of Trade, as empowered by the Companies Act, 1948, has modified the provisions of the Act in regard to the treatment of the combined provisions for depreciation as at January 1st, 1940, and provisions for obsolescence to date.

COURTAULDS LTD 1950 £	COURTAULDS LTD 1951 £	
2. INVESTMENTS IN SUBSIDIARIES (see Note 5). *(as adjusted)*		
5,569,138	5,592,866	Shares .. ..
588,226	1,481,372	Debentures and Advances .. ..
840,841	974,242	Debts on Supply and Current Accounts
6,998,205	8,048,480	
15,019	22,612	*Less* Credits on Current Accounts ..
£6,983,186	£8,025,868	Net Amount carried to Balance Sheet of Courtaulds Ltd

COURTAULDS LTD 1950 £	COURTAULDS LTD 1951 £		COURTAULDS LTD AND SUBSIDIARIES 1951 £	COURTAULDS LTD AND SUBSIDIARIES 1950 £
3. TRADE AND OTHER INVESTMENTS				
9,421,995	9,519,972	Trade Investments at cost	9,888,945	9,732,496
3,767,638	3,767,638	*Less* Amounts written off	3,811,020	3,811,020
5,654,357	5,752,334		6,077,925	5,921,476
194,117	194,088	Other (unquoted) Investments at cost ..	218,981	231,446
£5,848,474	£5,946,422	Net Amount carried to Balance Sheet ..	£6,296,906	£6,152,922

COURTAULDS LTD 1950 £	COURTAULDS LTD 1951 £		COURTAULDS LTD AND SUBSIDIARIES 1951 £	COURTAULDS LTD AND SUBSIDIARIES 1950 £
4. BRITISH, DOMINION AND COMMONWEALTH GOVERNMENT SECURITIES.				
14,729,758	16,700,824	At or under cost, as shown in Balance Sheet ..	18,239,790	14,817,421
14,831,538	16,873,929	Value of these Securities at March 31st, 1951, at Middle Market prices	18,396,342	14,912,391
150,000	150,000	Nominal Value of Securities, included in the above, deposited as security with Trustees of Pensions Funds	223,000	223,000
5. CURRENT LIABILITIES, PROVISIONS AND DIVIDENDS.				
3,295,187	3,789,644	Trade and Other Accounts	5,057,756	4,444,535
1,000,000	750,000	Temporary Deposit by an Associated Company	750,000	1,000,000
—	—	Advance by Bankers Abroad	—	244,199
1,639,535	2,751,079	Taxation	3,460,035	2,207,571
1,157,058	—	Provision identified with Employees' Pensions	—	1,157,058
—	451,000	Provision for Staff Pensions	508,290	67,620
469,532	282,358	Provision for Deferred Repairs and Renewals ..	295,837	485,341
55,000	52,500	Dividends (less tax) on Preference Stock accrued to date	52,500	55,000
—	330,000	Second Interim Dividend of 2½ per cent (less tax) on Ordinary Stock, paid on April 4th, 1951	330,000	—
660,000	787,500	Final Dividend (less tax) on Ordinary Stock proposed to be paid on July 26th, 1951 ..	787,500	660,000
£8,276,312	£9,194,081	Amount carried to Balance Sheet	£11,241,918	£10,321,324
6. CAPITAL RESERVES. *(as adjusted)*				
500,000	500,000	Post-war Refund of Excess Profits Tax, amounts received (see Note 3 (*a*))	500,333	529,641
750,000	750,000	Reserve against British, Dominion and Commonwealth Government Securities	755,568	755,568
3,179,301	4,883,993	Reserve towards increased cost of replacement of Fixed Assets (see Note 3 (*b*))	6,780,505	3,908,105
—	2,600,000	Reserve against increased cost of replacement of materials consumed (see Note 3 (*c*)) ..	2,710,774	—
16,283,091	16,319,111	General Reserve (see Note 3 (*d*))	16,998,082	16,461,434
£20,712,392	£25,053,104	Amount carried to Balance Sheet	£27,745,262	£21,654,828
7. REVENUE RESERVES.				
1,166,962	4,163,679	Reserve for U.K. Income Tax based on profits for the year to March 31st, 1951 (see Note 1) and (in Consolidated Balance Sheet) U.K. Taxes also on profit and loss balances of overseas Subsidiaries (see Note 4 (*a*))	4,808,444	1,721,079
2,374,863	2,957,595	Reserve for Tax deferred by initial allowances (see Note 4 (*b*))	3,026,595	2,374,863
1,000,000	1,000,000	Reserve for Contingencies (see Note 4 (*c*)) ..	1,000,000	1,024,813
6,000,000	6,000,000	General Reserve (see Note 4 (*d*))	7,330,691	7,232,311
488,702	656,877	Profit and Loss Account (see Note 4 (*e*)) ..	1,240,377	1,150,477
£11,030,527	£14,778,151	Amount carried to Balance Sheet	£17,406,107	£13,503,543

BALANCE SHEET OF COURTAULDS LIMITED
AND
CONSOLIDATED BALANCE SHEET OF COURTAULDS LIMITED AND SUBSIDIARIES
March 31st, 1951 (See Note 2)
(Schedules to Balance Sheets are on pages 6 and 7, Notes on page 8)*

COURTAULDS LIMITED						COURTAULDS LIMITED AND SUBSIDIARIES	
1950 (as adjusted)	1951			Reference		1951	*1950 (as adjusted)*
£	£	£			£	£	£
22,798,468	24,453,146		Fixed Assets	Schedule 1		30,172,340	*28,518,581*
6,983,186	8,025,868		Investments in Subsidiaries (see Note 5) ..	,, 2		—	—
5,848,474	5,946,422		Trade and Other Investments	,, 3		6,296,906	*6,152,922*
14,729,759	16,700,824		British, Dominion and Commonwealth Government Securities	,, 4		18,239,790	*14,817,421*
			Net Current Assets:				
9,857,038		10,522,033	Stocks-in-Trade, Stores, etc.		13,612,608		*12,930,329*
2,122,881		2,810,856	Debts, Amounts Recoverable and Payments in Advance		4,919,589		*3,926,710*
519,592		2,346,728	Bank Deposits under Irrevocable Credits for Future Supplies		2,346,728		*519,592*
3,100,000		3,200,000	Tax Reserve Certificates		3,500,000		*3,705,000*
6,059,834		7,019,459	Balances at Banks and Cash in hand		9,809,320		*7,285,454*
21,659,345		25,899,076	Total Current Assets		34,188,245		*28,367,085*
8,276,312		9,194,081	Deduct Current Liabilities, Provisions and Dividends	,, 5	11,241,918		*10,321,324*
13,383,033	16,704,995					22,946,327	*18,045,761*
£63,742,919	£71,831,255		Total Net Tangible Assets at book values ..			77,655,363	*67,534,685*
			Deduct Interests of minority shareholders ..			503,994	*376,314*
			Net Tangible Assets, at book values, relating to the interests of members of Courtaulds Ltd			£77,151,369	*£67,158,371*
			CAPITAL AND RESERVES				
			Capital Authorized and Issued:				
8,000,000	8,000,000		5 per cent Cumulative Preference Stock ..			8,000,000	*8,000,000*
24,000,000	24,000,000		Ordinary Stock			24,000,000	*24,000,000*
32,000,000	32,000,000					32,000,000	*32,000,000*
20,712,392	25,053,104		Capital Reserves	,, 6		27,745,262	*21,654,828*
11,030,527	14,778,151		Revenue Reserves	,, 7		17,406,107	*13,503,543*
£63,742,919	£71,831,255		Total Capital and Reserves			£77,151,369	*£67,158,371*

J. HANBURY-WILLIAMS
P. J. GRATWICK } *Directors.*

June 7th, 1951.

* The schedules appear on page 83; the notes are not reproduced.–Editor.

REVIEWS

SHORTER NOTICES

PRACTICAL SECRETARIAL WORK, by Henry I. Lee, A.C.I.S., and William N. Barr. Third Edition by Percy J. W. Daniell, A.C.I.S., F.C.C.S., F.R.ECON.S. (Sir Isaac Pitman & Sons Ltd, London. 21*s* net.) This third edition is the result of a revision made necessary by the passing of the Companies Act, 1948, which has introduced changes in practice and procedure. It remains an excellent text-book for the potential secretary although some slight errors have crept in. The statement on page 80 that applications for shares may be withdrawn at any time is no longer true. On page 170 it is implied that a committee in lunacy must always be appointed for an insane member, whereas in fact this procedure has largely been superseded. The specimen notice of statutory meeting on page 300 omits the statutory reminder as to proxies, while where the reminder is given, it is in a somewhat ambiguous form. No mention is made of the fact that a proxy form does not normally require to be stamped.

IMPORTANT SECTIONS OF THE BILLS OF EXCHANGE ACT, 1882, AND OF OTHER ACTS. (Textbooks Ltd, London. 3*s* 6*d* net.) This small book is presumably meant for students of commercial law and is confined to a verbatim extract of certain of the sections of various Acts affecting that subject. For those students who do not otherwise have access to these Acts, the book will no doubt be helpful when used in conjunction with text-books.

THE TAXATION OF PRIVATE COMPANIES (SOUTH AFRICA), by A. S. Silke, M.COM.(HONS.) (CAPE TOWN), C.A.(S.A.), A.S.A.A. (Juta & Co Ltd, P.O. Box 30, Cape Town. 25*s* net.) In all countries of advanced economic development the private company or its foreign counterpart is becoming an object of special attention by taxation authorities, and attempts to provide for its somewhat anomalous nature have produced laws of baffling complexity. In this respect, South Africa seems to be no exception. This is a book for the expert. The subject is attractively presented, and the book is rich in examples.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Speed in Production of Monthly Accounts

SIR, – With reference to your invitation to readers to advise you of the dates by which they produce their monthly accounts, I have pleasure in giving you some facts regarding this company.

We are engaged in retail distribution through approximately 250 branches, and in manufacturing some of the products we sell. All goods are distributed to our branches, by our own fleet of vehicles, from a central warehouse. Preparation of our accounts entails the assessment of all maintenance and running costs in connexion with these, and furthermore of all our works and engineering maintenance in connexion with the buildings, plant and machinery. We prepare a complete set of accounts every four weeks, which are ready for examination by the board within fourteen days, and which with very little extra effort, could be produced in ten days. In preparing them, estimation has been cut to a minimum and the year-end accounts (the total for the thirteen periods) which are presented to the auditors, are subject to few adjustments (usually on questions of principle) apart from tax calculations. As a matter of interest, these final accounts are prepared in exactly the same time as the four-weekly accounts.

There is no undue strain on any particular department or individual in maintaining this schedule, and it is in fact, a matter of great pride with the staff concerned, that it is adhered to without fail.

Yours faithfully,
A. JONES, A.C.A.,
Chief Accountant,
London, SE1. J. SAINSBURY LTD.

SIR, – The correspondence which has been proceeding with regard to the preparation and presentation of monthly profit and loss statements interests me very much, as for almost thirty years I have been responsible for presenting such figures for my own firm.

From the many letters which you publish, and from my own experience, it is only too evident that one of the chief causes of the delay in the presentation of monthly accounts is the never-diminishing slowness on the part of suppliers in rendering their invoices, particularly where these directly concern the costing and invoicing of customers' orders. Another aspect which tends inevitably to aggravate this delay, for the same reason, is the *crescendo* of production effort towards the end of the month to enable the maximum deliveries to be invoiced during the month.

In our own case, not only are our monthly profit and loss figures available on an average by the 13th of the month – occasionally several days earlier – but the month's production expenses – overhead and maintenance charges – are also completed, and the management is thus provided with vital manufacturing cost statistics. These are presented in a form which co-ordinates production and distribution accounts and affords a complete picture of the firm's entire trading.

It results from the use of a system which closely integrates the financial accounts with the cost accounts. So that, despite a continued expansion of production and sales, with the consequent growth in manufacturing and selling personnel, the date of the completion of the month's figures remains virtually constant.

Yours faithfully,
London, EC4. A. CURTIS, A.I.A.C.

SIR, – May I congratulate Mr C. D. Jackson, A.C.A. (issue dated July 14th), on the speed with which he produces his monthly accounts, and add that he, too, could have responded to your open invitation without the necessity of inferring a non-existent challenge from my brief letter?

The amount of time taken for the preparation of monthly accounts will obviously vary according to, *inter alia*, the size of the company and the type of industry; the individual accountant's interpretation of 'monthly accounts' and the amount of time and trouble he is prepared to put into them; and the amount of 'spur' given by the board.

While I do not propose to enter into a lengthy discussion upon these matters, however, I should appreciate it if Mr Jackson would explain how he takes his accounts to the last day of the month, which almost always makes a broken week, and yet completes his accounts without estimates. Does he calculate his salaries and wages daily?

Yours truly,
Nottingham. ROBERT LOWE.

Pension Schemes

SIR, – In your issue of June 30th 'Underdone' asks about the difference in cost between a pension scheme operated as a privately-administered fund and one arranged with a life office by means of endowment assurances.

It is at once evident that the latter type of scheme will be more costly because of the large amount of life assurance to be provided. For example, to obtain a pension at age 65 on the scale of two-thirds of salary it will be necessary to have an endowment assurance for about seven times the current annual salary (more for women) which provides far more death cover than is normally required or is provided by a private fund.

It is difficult to give an indication of the relative cost because of the wide variations possible in scales

of benefit, age distributions, etc., but it might very broadly be said that for an average age distribution the total annual cost of the endowment assurance scheme would be some 50 per cent higher than that of a private fund providing equal pensions on retirement at 65 but merely a return of contributions on previous death.

The disparity would be wider if the staff were recruited at young ages and increases of benefits were non-existent or mainly confined to young ages, and less in the converse case.

If a scheme is to be assured with a life office (a plan which has advantages, especially in the case of a small staff) a better arrangement will often be a combination of endowment assurances and deferred annuities, the former providing, say, a death benefit equal to one or two years' salary, with annuity option at maturity, and the latter providing the balance of the pension required. A scheme on these lines will not be a great deal more expensive to the employer than a private fund, although he must of course be prepared to pay for the life office relieving him of the risks of adverse fluctuations in mortality experience, of the responsibility for investing the premiums, and of part of the administrative expenses.

Yours faithfully,

London, EC2. E. C. EVANS.

Directors' Benefits

SIR, – We should be interested in the experiences of readers in cases where the above are derived from hotel management in a private company. There are three points in which we are finding the position not too clear:

(*a*) The value of benefits may be very high where a luxury season hotel is concerned. May not the luxury elements be excluded on the grounds that they are provided for use in performance of the duties (Section 39 (2), 1948)? The apportioned value, for example, of expensive hotel accommodation may well be beyond the ordinary means of a resident director/manager.

(*b*) Whether the provision of director's meals in the hotel restaurant qualifies for exemption as 'canteen meals' where meals are also provided for the staff?

(*c*) Whether the assessable director's benefits must include those provided for his wife employed as resident housekeeper in the same hotel?

Yours faithfully,

RESIDENT.

Income from Investments

SIR, – The consolidated profit and loss account of a holding company discloses total profits of the group and the usual information about directors' fees and depreciation. Such profits are derived from various trading activities, prospecting and development of gold-mining properties and interest and dividends from investments.

As the gross amount of income from investments is not separately stated, I should be pleased to have the opinion of readers as to whether the accounts comply with the requirements of the Eighth Schedule of the 1948 Companies Act. They do not appear to conform with the recommendations of the Institute in this matter.

Furthermore, although the market value of quoted securities is shown in the balance sheet, no information is given on the market value of the quoted securities held at the same time last year. From a scrutiny of the previous year's balance sheet it would appear that the market value of these securities has since declined by approximately £100,000.

Do readers agree that such a balance sheet gives a true and fair view of the state of affairs?

The company is a public company.

Yours faithfully,

INTERESTED SHAREHOLDER.

Heating and Sanitary Engineers: Profit Percentage

SIR, – I am interested in the question, as to what are the usual percentage rates of profit charged on wages and materials, respectively, to arrive at a satisfactory rate of gross profit.

Perhaps some of your readers with experience of this type of business will oblige with details.

Yours faithfully,

T.

Maintenance Relief

SIR, – Clients own a 21-year lease of premises partly used as offices and partly as residential flats and under the terms of their lease they are liable for all repairs. The residential portion is partly occupied by themselves, and for the remainder of the premises they receive rents amounting to £350 per annum. The occupiers of the sublet portions are not liable for repairs or for rates. After allowing for services provided to the tenants, and for rates, and bringing in the gross annual value of the part occupied by the owners, an amount of £360 is agreed as the gross taxable income of the property. A statutory maintenance allowance of £63 is given, and our clients are assessed on excess rents of £147, being £297 as above less £150 rent paid. The rent paid exceeds the net annual value.

On behalf of our clients we have lodged a claim for further maintenance relief in respect of average expenditure for the last five years in excess of the statutory allowance referred to above. The Inspector of Taxes maintains that because Rule 8 of No. V Schedule A applies only to an 'owner', no claim can be made. This results in hardship to our clients as they are required to pay income-tax in excess of their actual income and we shall be glad to know if any readers have been successful in making a similar claim.

Yours faithfully,

London, EC2. J. E. HOOPER.

Integral Book-keeping: A Problem

SIR, – In reply to Mr H. R. Clothier's letter in your issue of July 7th, I would suggest that if the transactions be followed through the cost records to their conclusion, the arguments put forward by the costing staff would perhaps be substantiated. Presumably, in the cost accounts some maintenance account would be debited with the original amount of the repairer's invoice, and an additional debit would find its way to this same maintenance account from a requisition.

The credit received from the repairer would be credited to 'Maintenance' in the bought journal, from where it would be credited to the maintenance account in the cost records mentioned above, thus cancelling the debit from the stores requisition. The net figure remaining in the cost records is thus the amount of the repairer's original charge.

In my opinion, it is incorrect to reduce any purchases of production material; the fact that production materials were subsequently used for maintenance work is purely fortuitous, and it is therefore suggested that the amount shown in the 'production' column should remain unaltered, this amount representing, in fact, the value of materials *purchased for production*, whether eventually used for that purpose or not.

Yours faithfully,
HAROLD BOWDEN, A.C.W.A.

Glossop, Derbyshire.

SIR, – I would like to thank your correspondent Mr C. L. Metcalfe (issue dated July 14th) for his clear interpretation of our problem. He has brought out, *inter alia*, the main point – the duplication of the charge to 'maintenance'. The materials drawn from stores are charged twice. Once via the 'stock summaries', and once via the day-book.

Other totals must of consequence be upset and the procedure will vitiate comparisons of purchases month by month. Apart from this, inter-departmental reconciliation becomes unnecessarily tedious.

Yours faithfully,
Enfield, Middx. H. R. CLOTHIER.

Private Companies and Sur-tax

SIR, – The increase in the rate of distributed profits tax in the last Budget has produced an anomaly in that for the private limited company, which is director-controlled by one or two people (and these are probably a majority of all limited companies trading today) it may be cheaper in terms of tax for a direction to be made under Section 21, Finance Act, 1922, than otherwise.

These directions are normally made where profits have remained undistributed and it seems that it may be cheaper to deliberately withhold distribution in the hopes that a direction is made and a sur-tax assessment accepted, since (by Section 31 (2), Finance Act, 1947) income which is assessed on individuals in such circumstances is exempt from profits tax.

Assuming a private (one-man) limited company, with profits, after paying directors fees of £2,500, of £10,000 for income-tax purposes; the computation figures would appear to be as follows:

Maximum distribution approx. £6,500 = £6,300 (after abatement)

	£
Profits tax	3,500
Income-tax	3,100
Sur-tax (on £6,500)	950
	£7,550

If, however, a direction is made, these figures become:

	£
Income-tax (on £10,000)	4,750
Sur-tax (on £10,000)	2,187
	£6,937

I have ignored personal allowance, earned income relief, etc., as these do not affect the argument, their value in terms of income-tax should be the same whether a direction is made, or not. I have also ignored the tax on the assumed directors' fees, since this would also be identical in both examples.

For figures over £20,000 my workings show that the saving is rather less, e.g. on £30,000 it is £270 cheaper (on a tax bill of £26,500) to have a direction made.

If this is not disincentive, what is? I doubt that the Chancellor in 1922 could ever have dreamed that Section 21 might one day be used to save tax.

Possibly the Commissioners today might refuse to make a sur-tax direction, having regard to Section 28 of this year's Finance Bill, on the grounds that this was a transaction for the avoidance or reduction of liability to profits tax?

Yours faithfully,
Manchester, 2. J. ROSS.

Accountants' Certificates

SIR, – A company with which I am concerned has recently applied to the Ministry of Food for an allotment of certain raw material and, on the special form provided, the company was required to certify the amount of such raw material used in manufacture during the preceding twelve months, and also to certify the amount of such material in stock on a certain day. All these requirements, are, of course, quite reasonable, but then they require that such statements shall be 'certified correct' by the company's auditors.

The director who dealt with the matter said that he really did not see how we could give such a certificate, and suggested that my professional body should discourage the demand for certificates where it is impossible to verify the facts.

Naturally I am not going to certify something which is incapable of verification, and so I have crossed out the wording of the certificate, and stated that I must accept the company's declaration.

Whether such amended 'certificate' will be accepted I do not know – if it is accepted then it stands for nothing and time might have been saved in asking for an accountant's certificate – if it is not accepted, then I am asked to do the impossible.

I am really of the opinion that the professional bodies should make some pronouncement on such business of expecting the accountant to certify such matters, and write his signature on the dotted line, as such practice as asking for certificates in such and similar circumstances is getting far too common.

Yours faithfully,

Exeter. STAFFORD HONEY.

'Wet Water'

SIR, – I notice that the adjective 'historical' is much used these days in connexion with cost.

To make our meaning clear it is necessary to talk of capital cost, high cost, replacement cost, etc., just as we need, from time to time, to describe water as hot, cold or salt, but it is never necessary to use the expression 'wet water', and I suggest that it is equally silly to talk of historical cost, for cost as such is necessarily of the past, just as water is necessarily wet.

Yours faithfully,

King's Norton, Birmingham. H. A. BRISCOE.

Orthodox Profits

SIR, – I have read Mr Briscoe's article in your issue of July 7th, entitled 'A case for orthodox profits'.

The whole of Mr Briscoe's argument appears to be based on the misconception that by the inclusion of replacement costs in the profit and loss account, prices and profits are likely to be increased to the advantage of the industrialist, and that the industrialist thereby escapes the effects of inflation (and is in a favoured position as compared with, say, the rentier). Mr Briscoe's objection to the inclusion of an item representing increased cost of replacement in the profit and loss account is that it is socially unjust.

Mr Briscoe appears to labour under the not uncommon delusion that the industrialist totals up his costs of production and fixes his prices at a level that covers these costs and provides a profit.

The truth of the matter is of course that the price the industrialist can obtain for his products is in the main determined by the laws of supply and demand, and is uninfluenced by such considerations as to whether he includes in his costs an item additional to normal depreciation, representing replacement costs. It is of course true that in the long run prices are determined by costs in the sense that when prices are so low that they do not cover the costs and a reasonable return on outlay, some producers cease to expand production and some tend to reduce production, and equilibrium between supply and demand comes about through some advance in prices.

So far as I can see, the industrialist, when considering whether he should include an item representing increased cost of replacement in his profit and loss account, has to ask himself one question, i.e. what information does he require from his profit and loss account? Does he want to know the amount that has become available during the accounting period for distribution of dividends and for expansion of business? If so, he must include an item representing increased cost of replacement of his assets.

If he simply wishes to know how much better off he has become in terms of money as a result of his trading during the accounting period, then he can omit the item representing increased cost of replacement.

I cannot see any element of equity or social justice entering into the question at all.

The question as to what should be regarded as taxable profits is of course entirely another matter, and all kinds of considerations have to be taken into account in arriving at a decision on this point.

It is of interest to note that Mr Briscoe reaches the conclusion that by omitting any item representing an increased cost of replacement, prices are restrained from rising, and any prevailing inflationary tendency curbed.

It need only be said that this view is diametrically opposed to the view of professional economists (see F. Lacey, *Economics Journal*, December 1947), who hold the view that by excluding the item of cost representing the increased cost of replacement, higher profits are shown, dividends and wages tend to rise, and any inflationary tendency increased.

I am,

Yours faithfully,

Liverpool, 3. JOHN P. BIBBY.

SIR, – Mr Briscoe's article, 'A case for orthodox profits', in your issue of July 7th, in which he discovers and defines the true nature of the businessman's bargain with the community, clears up a lot of the misunderstandings previously surrounding this subject.

As long as the actual money we collect in exceeds that which we laid out, leaving us with more pound notes at the end than when we started, that alone is to be regarded as the true and fair measurement of our profit.

A pound note is, after all, merely a bearer certificate of claim to a 1-*xth* share of the gross national wealth. Double the number of pound notes against the same gross wealth, and we've got a case of inflation. So presumably Mr Briscoe also subscribes to the views of that school of brilliant economic thought which maintains that a one-for-one share bonus gives you a 'true and fair' profit of 100 per cent. After all, it's the number of pieces of paper – pound notes or share certificates – that counts, apparently, not what they represent.

I am, sir,

Yours faithfully,

Bournemouth. JEFFERY ENGLISH.

P.S. – In any event, I most heartily disagree that 'orthodox accounting' means that we must necessarily close our eyes to inflation.

Accounting for Inflation

SIR, – In your columns and elsewhere a good deal of discussion arises at various times on the subject of replacement cost accounting, inflation and 'real wealth' but the fundamental issues seem to be quite clear-cut, and the better for not being confused by economic concepts.

On the question of replacement, there can be no doubt that this, of whatever nature, does and should enter into costs, whether in financial accounts or otherwise; in these days the need for definite provision is emphasized. Stock may be valued for balance sheet purposes at the lower of cost or market value, or replacement value – in times of stable prices it will undoubtedly be valued at the lowest possible price. The money required to purchase new stocks at higher prices must be provided, and it is suggested that such excess cost should always be allowed for, in cost accounts as a separate rate, and in financial accounts as a special provision or reserve.

What is a definite question in the measure of profits, orthodox or otherwise, is whether the cost of replacing stock in the succeeding period should be included in the current accounts, thus having an evening-out effect, or whether each period should bear its own costs. The former seems more expedient today, the latter seems nearer true cost.

Similarly with depreciation, which should clearly have as its lower level sufficient to write down the asset to its expired value, and as its upper level pure depreciation plus provision for higher replacement cost; best provided separately. Incidentally, more emphasis seems to be given to the tax aspect than to actual replacement.

In a time of unstable prices the safest policy to follow is one of revaluation – assessment at the time on known facts, probable trends and individual merits. Economic principles are no part of accounting, and attempts at revaluing separate items in the accounts do not seem to achieve much, other than begging the question.

If apparent profits have been affected by changes in the value of money, the proper place to deal with this matter is the appropriation account; it is a loss of a semi-capital nature. Since equity holders bear the risk it is quite fair that their interests should be protected. Whether preference shareholders should be given increased dividends or rights is a separate matter.

The statement that replacement accounting is disinflationary is broadly true, and to act on such principles would appear to be all to the good. Too often in the past, in one way or another, in public utilities or industry, true costs in Britain appear to have been obscured and the effect in times of difficulty is sometimes embarrassing.

Yours faithfully,

Caterham, Surrey. K. H. WEST.

CURRENT LAW

Bankruptcy: Money Lent

One H. lent M. some £70,000 for the purpose of setting up the business of a riding academy. M. became bankrupt on his own petition and H. proved for the amount she had allegedly lent, which proof the trustee refused to admit. There was no agreement for the repayment of the money; H. lived with M. as his wife, ran the domestic side of the business and allowed herself to be described in the academy brochure as Mrs M., one of the principals.

The County Court Judge found for the trustee and his decision was upheld by the Divisional Court. Romer, J., held that where a person authorized the employment of his assets in a business, he could not prove in competition with the creditors. It was impossible to regard the appellant as a creditor. The moneys she had put into the business were her contribution to the capital of the business. Harman, J. agreed. (*Re Meade; Humber v. Palmer (The Trustee), Solicitors' Journal*, June 16th, 1951.)

Renunciation of Probate: Liability

The defendants in *Tiger and Another v. Barclays Bank Ltd* were the executors under the wills of a testator; the plaintiffs were the residuary legatees. By arrangement, the defendants agreed to renounce probate, but insisted that before delivering up the papers relating to the administration they were entitled to a formal release and discharge from all liability in connexion with the estate. The plaintiffs maintained that the defendants had no such right and sued for delivery of all documents connected with the estate.

Finnemore, J., held that the plaintiffs were right. He refused to accept the defendants' argument that as the result of the compromise by which they renounced probate a new trust had been set up, that the original one had been completed, and that they were thus entitled to the release:

> 'If, therefore, they were to give the defendants a complete and formal release from any responsibility that they may have incurred while they were executors and it turns out that something illegal has been done, the plaintiffs might be in a very difficult position if a beneficiary claimed that this had interfered with his right. . . . The trust is still the trust under the will and it is unreal to say that at the time the compromise was made the original trust had come to an end and a new trust had come into being. This being so, the defendants are not entitled to demand a release. . . as a condition of handing over the documents relating to the estate.'

([1951] 2 All E.R. 262).

Forged Mortgages

An interesting appeal from the decision of the Full Court of the Supreme Court of Hong Kong came recently before the Privy Council. The plaintiffs in *Fung Kai Sun v. Chan Fui Hing*, employed a manager who, in fraud of them, mortgaged their property to the defendant. When the fraud was discovered the plaintiffs did not immediately inform the defendant, but delayed some three weeks.

The Privy Council said that the plaintiffs were not entitled to withhold the information from the defendant; and when they ultimately did tell him their manager had disappeared. They delayed at the risk of being estopped from asserting that the mortgages were forgeries if it should be the fact that the defendant was prejudiced by the delay. In fact, the latter had failed to show that this was the case and accordingly the appeal failed (*Solicitors' Journal*, July 7th, 1951).

Contract: Public Policy

The Court of Appeal recently upheld the decision of His Honour Judge A. R. Thomas in the Mayor's and City of London Court in *Napier v. National Business Agency Ltd.* The latter employed the former as a secretary at a salary of £13 per week plus £6 per week expenses. In fact the work was such that the expenses could not amount to more than £1 per week. After about ten months the plaintiff was dismissed, whereupon he sued the employers for salary – £13 per week – for six or four months, instead of one month, the period for which notice to terminate had been given. During the hearing in the lower Court it became apparent that the agreement to pay expenses amounting to £6 per week was not genuine in the sense that it could be taken as a fair representation on the part of either party of the expenses that the plaintiff would in fact incur. The learned judge found that the agreement was against public policy and accordingly refused the plaintiff's application.

The Court of Appeal agreed and further refused the claim that the agreement was divisible. It could not properly be treated as consisting of two separate and distinct bargains and was thus not severable ([1951] 2 All E.R. 264).

Money Lent

A case arising under the Income Tax Acts was decided in June last by Lynskey, J., in *Bernard and Shaw Ltd v. Shaw* (*Rubin Third Party*) ([1951] 2 All E.R. 267). The plaintiff company paid one of its directors certain remuneration without deducting income-tax as required by statute. The Inland Revenue put in a claim to the company, which then called upon the director to pay. On his refusal the company alleged that the payments were a loan or, in the alternative, if they were remuneration they included income-tax which should have been deducted and which was accordingly repayable as money received to the plaintiffs' use.

Lynskey, J., decided against the company. He first found that the money was paid as remuneration and not as a loan; and he could find no ground on which the plaintiffs could successfully reclaim the money. He held that by Regulation 52 (2) of the 1950 Income Tax Regulations the Inspector may raise an assessment in cases where tax has not been deducted. As, also, the plaintiffs knew that tax was deductible it could not be said that they had paid by mistake, nor was it possible to argue that the director received the money to their use (and he cited *Denby v. Moore* ((1817) 1 B. & Ald. 123)). Further, the learned judge knew of no form of action for the recovery of the money, flowing from the fact that there was a legal liability to pay the tax to the authorities. Lastly, he refused to consider that there could be any recovery on the ground that the defendant was trustee for the plaintiffs:

> 'I know of no principle either at common law or equity which would enable me to say that when a company (although it be a legal entity and not an individual) voluntarily pays money to a person without deduction when there should have been deduction, that makes the recipient of the voluntary payment a trustee for the company in the absence of some other equity arising, and I see no other equity arising.'

Sale of Goods

A sale of Guernsey cows was conducted on the basis of a catalogue containing the condition that

> '(12) No animal, article or thing is sold with a "warranty" unless specially mentioned at the time of offering, and no warranty so given shall have any legal force or effect unless the terms thereof appear on the purchaser's account.'

A freshly-calved heifer was offered for sale but no one would bid for her as her appearance was unpromising. The seller whereupon stated that she had nothing wrong with her, that he would absolutely guarantee her and that he would be willing to take her back if she proved different from what he stated her to be. She was sold to the plaintiff but yielded little milk and died shortly after.

The Court of Appeal held that the defendant's statement amounted to a condition and not a warranty, a condition which excluded condition 12. The plaintiff was thus entitled to succeed (*Harling v. Eddy* (*Law Times*, June 22nd, 1951)).

Settlement: Nationalization Stock – Capital or Income

In *Re Kleinwort's Settlements: Westminster Bank Ltd v. Bennett* (*Solicitors' Journal*, June 30th, 1951) trustees held some £2,000 ordinary stock of Thomas Tilling Ltd. In 1949 the company passed a resolution that £20,600,000 British Transport 3 per cent Stock should be distributed to the ordinary stockholders by way of a special capital profits dividend and the question arose whether the trustees should treat their holding of the transport stock as capital or income.

Vaisey, J., held that it ought to be distributed as income, following *Re Sechiari; Argenti v. Sechiari* ([1950] 1 All E.R. 417).

THE ROYAL COMMISSION

SOCIAL SECURITY AND INCOME TAX

The Inland Revenue Memorandum

The Royal Commission on the Taxation of Profits and Income continues to deal with item A2 of the main heads on which it invited evidence, namely, whether it would be advantageous to link income-tax with social security payments and contributions. At its first public meeting, reported in our issue of June 30th last, evidence was given in support of various schemes under this head. A further public meeting was held on July 18th, to give witnesses an opportunity of dealing with Inland Revenue criticisms of these schemes and to enable representatives of that department and of the Ministry of National Insurance to elaborate on these criticisms.

In our report of the first public meeting of the Royal Commission on the Taxation of Profits and Income we referred to a memorandum prepared by the Inland Revenue. This was released shortly before the Commission's second public meeting. It was prepared in response to the Commission's request for comments on the Liberal Party scheme for the reform of income-tax and social security and is divided into three parts. Part I summarizes this and five other schemes of a similar nature. Part II examines generally their underlying nature, and Part III examines the Liberal Party scheme in detail. There are two appendices, one purporting to show that the scheme produces a deficit of £315 million, the other correcting some errors in the tables which accompany the scheme and which are designed to show its effect on particular individuals.

Part II asserts that none of the schemes would achieve all the main objectives, which it defines as follows:

(1) To amalgamate income-tax and social security into a single coherent and logical system.

(2) To remove the disincentive effects of the present income-tax by substituting a flat rate tax.

(3) To simplify administration.

It regards (1) and (2) as mutually exclusive. Adequate weekly cash payments to all individuals would necessitate a flat rate of tax so high as to be more disincentive than the present tax, while if the cash payment were kept low and supplemented when necessary by sickness etc. benefits, complete amalgamation would be lost, as would be the expected administrative economies. More, not fewer, civil servants would be required.

The memorandum questions the social advisability of the schemes in that the contributory principle would be lost. It quotes paragraph 274 of the Beveridge Report[1] to show how important this principle is. The paragraph gives three reasons: the insured likes to pay, he is taught not to regard the State as a dispenser of gifts, and his insurance card is a convenient document for classifying him and recording his contributions and entitlement. From the taxation point of view, the memorandum regards the scheme as having a bad effect on incentive. Moreover, to cancel income-tax personal allowances and replace them by direct cash allowances would be to convert one operation into two. A universal flat rate tax of, say, 5*s* in the £ might induce trade unions to claim four-thirds of the wages they really wanted, and individuals who were worse off under the scheme would protest against its being instituted.

Criticism of the Liberal Party Scheme

In its critical examination of the Liberal Party scheme the memorandum points out inaccuracies in the calculations resulting in a flat rate of tax at some sixpence in the £ less than what would in fact be required. Since the universal cash allowance would be kept down to 10*s* per week (assuming the continuance of food subsidies) in order to retain the incentive to work, and supplemented in times of sickness, etc., a full amalgamation would not be achieved. A mere increase in benefits could be given under the existing scheme. The proposed scheme does not improve the lot of single persons with incomes above £200 and if it is desired to assist families this could be done by increasing family allowances. In relation to incentives, the memorandum recalls that of the 19 million people with incomes between £135 and £600, only 750,000 paid tax at over 5*s* in the £ in 1950–51, 6 million paying nothing at all, and the other 13 million paying on only a part of their income. The flat rate tax would apply to every pound of earnings and would deter people like married women from working at all. True the jump in rate at certain points in the existing system might bring a 'psychological disincentive', but the Inland Revenue did not think the point important; it could in any case be met by an intermediate reduced rate. A progressive rate is not necessarily more disincentive in its effect than a flat rate, it depends on the precise amounts of the respective rates; 'it is easier to carry a hundredweight upstairs than a ton along the level'.

As to administration, the memorandum estimates a saving by the scheme of Inland Revenue staff numbering from 10,000 to 15,000, after allowing for the extra work of dealing with 500,000 small traders now written off, and assessing and collecting subsidiary items of income now dealt with through P.A.Y.E. It could give no indication of the saving to employers by the abolition of the latter. The present 3 million family allowance claims would go up to 27 million and require a very large staff, more in fact than the number dispensed with by the Inland Revenue.

Replies to the Inland Revenue Memorandum

As a result of the memorandum, Lady Rhys-Williams and the Liberal Party Committee adjusted the figures in their respective schemes and submitted further memoranda in reply. Lady Rhys-Williams meets the

[1] Report on Social Insurance and Allied Services, H.M.S.O. Cmd. 6404.

disincentive argument with the point that the lower income groups, particularly those with families, are bound to go on working until their minimum living standard is attained, which is roughly equivalent to their maximum wages. It is the relatively affluent workers who are dissuaded by the existing progressive taxation and these would be better off under her scheme. She makes specific suggestions directed to saving administrative costs of working the scheme and wholly rejects the argument that more civil servants would be required.

Liberal Party Supplementary Memorandum

Apart from revising figures, and cutting down some benefits to re-establish the solvency of its scheme, the supplementary memorandum of the Liberal Party *ad hoc* Committee, dated July 7th, 1951, confines itself to dealing with the Inland Revenue argument that the contributory basis of social insurance should be retained, i.e. that weekly contributions of fixed amounts should continue. It points out that the employee's present contribution represents only a fraction of the actual cost of the benefits. Being practically universal and compulsory, with penalties for non-payment, it is much more a tax than 'insurance'. Mr J. R. Hicks, a member of the Commission, is quoted as having once said, 'The National Insurance Scheme is and always has been a little bogus'. The memorandum gives the context of the paragraph of the Beveridge Report quoted by the Inland Revenue, and shows that the present system of compulsory contributions is open to Lord Beveridge's own objections. The proposed scheme amounts essentially to the substitution, for a rigid poll tax, of a graduated tax based on ability to pay. Although the present system contemplates changes from time to time in the amounts of contributions, such changes would involve enormous administrative difficulties. Under the proposed scheme there would simply be a change in the flat rate of tax. Rises or falls in the value of money would of course be dealt with automatically by the flat rate. As to the utility of insurance cards for record purposes, the memorandum points out that as records would no longer be kept, this point has no substance.

National Insurance Funds

The supplementary memorandum observes that one result of the adoption of the Liberal Party scheme would be the abolition of the National Insurance Fund. It adds that this need cause no alarm. In effect, sales of the securities which constitute these funds would have the same consequences as a policy of Government borrowing. Accordingly, finance of increased pensions involves the same problem as the financing of other items of Government expenditure.

Further Oral Evidence of the Liberal Party Committee

The Commission met in public again on July 18th, 1951, and heard further evidence from Sir Arthur Comyns Carr, K.C., Mr Alan T. Peacock, D.S.C., M.C., Mrs Guy Naylor, and Miss Nancy Seear, M.A., all of whom appeared on behalf of the Liberal Party *ad hoc* Committee. The chairman reminded witnesses that food subsidies and social services as such were not in the Commission's terms of reference. He put to them some corrections of their revised figures which appeared to produce a deficit of £58 million, involving an increase of 1½*d* in the £ in the flat rate tax, and Mr Peacock undertook to consider them. Messrs Hicks and Kaldor pointed out that the tables at the end of the Liberal Party booklet shewed improvements under the scheme for most of the classes of individuals there set out. Mr Peacock replied that the classes who did not benefit must be more numerous than those who did; in 1947 56 per cent of all households had no dependent children. Single taxpayers greatly preponderated. He confirmed that in his view the employer's contributions were treated as a cost of production and passed on in the prices of goods and services. The chairman put the point made by the Inland Revenue that since sickness benefits and the like would continue, amalgamation and its attendant benefits would be lost. Sir Arthur replied that the main cost of administration now was the collection and recording of weekly contributions. Far from there being an increase in national insurance staff greater than the decrease in Inland Revenue staff, there would actually be a fall in national insurance staff. He agreed with Lady Rhys-Williams's suggestion that the books of coupons could be issued with food ration books and cashed at sub-post offices or even shops. People with incomes over £600 would be picked up from employers' returns and test checks, a return from everyone would not be necessary. The chairman suggested that the present system of child allowances through income-tax might be designed to help the higher income groups who send their children to fee-charging schools. Sir Arthur replied that the proposed scheme exempted £75 of income for each child from the proposed supplementary tax on incomes over £600. The chairman quoted a criticism of the scheme which was made in a memorandum submitted by the Inland Revenue Staff Federation, namely that the Chancellor would be deprived of the elasticity in framing his Budget which the present tax system now offered. Sir Arthur said the scheme in some ways supplied more elasticity; it would apply universally, while income-tax did not. Moreover it was desired to reduce complications, not perpetuate them. Booms and slumps could be met by alterations in the amounts of cash allowances. The existing dependent relative allowances would be disposed of by the weekly cash payment to every adult. He denied that a flat rate tax would in the circumstances be necessarily disincentive. Family men with high wages would certainly suffer the deduction of large amounts but they would receive cash allowances to balance, although if the children's allowances were paid to the wife, the husband as an individual might be worse off. Mrs Naylor observed that people varied in their reactions to tax, some were constrained to earn more to make up the tax deducted; Lady Rhys-Williams's original scheme of paying a weekly sum to everyone, working or unemployed, was designed to be an incentive to work since idleness would no longer be a condition of payment. Miss Seear added that one could not generalize about incentive except where there was a jump in rate on marginal earnings as under the present system. Mr Crick, a member of the Commission, put questions which appeared to be designed to show the advantages of retaining national insurance reserves to meet future pensions and widespread unemployment, together with the existing machinery for achieving flexibility in national insurance.

Sir Arthur Comyns Carr said he did not wish to commit himself as being either in favour of, or against, the abolition of the existing National Insurance Funds.

The part of the supplementary Liberal Party memorandum dealing with this aspect had been prepared by Mr Peacock who had already left the meeting. Mr Crick pointed out that the scheme introduced no incentives for people in the sur-tax groups, and did not show how tax was to be deducted from the earnings of the self-employed. Mr Keswick made the point that food offices might not always be with us to hand out books of coupons. In reply to Mr Hicks, Sir Arthur said that the main principle of the proposed scheme was to replace flat rate weekly contributions by a graduated tax. This was a reform which could be carried out alone.

Oral Evidence of the Inland Revenue

In the afternoon Mr F. A. Cockfield, Director of Statistics and Intelligence of the Inland Revenue, and Mr Gerald Williams, Assistant Secretary of the Ministry of National Insurance, gave evidence. Mr Cockfield said that national insurance contributions were irrelevant to the question of incentive, what was relevant was the tax on marginal earnings. The six million people earning over £135 per annum who now paid no tax would be faced with a deduction of one-quarter of all they earned. At the present time they could not possibly be deterred from overtime by tax since they paid none. The estimated saving in Inland Revenue staff represented about half the existing complement. At present, fifteen million return forms were issued each year, not all to the same people. Under the proposed scheme it would be necessary to issue a return every year to everyone over £600, and periodically to those below this income. Small traders with wives and children or other dependants were at present written off without a precise calculation of their profits, which would no longer be possible under the scheme. P.A.Y.E. at present swept up minor adjustments in respect of subsidiary sources of income, such as the net annual value of an owner-occupied house. About a million people under £600 per annum owned their own houses and if the scheme were adopted each one of these houses would have to be assessed, and the tax on it collected, separately.

The Ministry of National Insurance

Mr Gerald Williams then gave evidence of the estimates of increased staff of his department to operate the scheme. On the basis of 38 million adults, the present staff of 4,500 clerks issuing allowance books would have to be increased by 22,000 to 26,500. The local office staff would go up from 5,500 to 11,500. The central issue of books, staggered and highly mechanized as it was, would be much cheaper than the food office method. Allowance coupons should not be incorporated in ration books because they were valuable documents, whereas food coupons were worthless bits of paper. The chairman remarked that food coupons were on the contrary extremely valuable. Mr Williams said the existing 4,500 staff issued books covering 7¾ million people. Payment of the allowances through post offices cost his department about £250,000 for every million books, about a penny for each weekly payment, but he could give no estimate of the staff employed on this work. He had taken no account of the saving through the abolition of contributions, but did not think it would be very great. Mr Millard Tucker, reverting to the estimates of staff needed to issue allowance books, said that at present there seemed to be one clerk for every 1,900 people. The estimate of 22,000 clerks to issue the extra books made him ask what would these clerks be doing for the rest of their working time. Mr Kaldor said it meant that each clerk took a whole day to issue six books, which compared very unfavourably with a doctor for instance, who had two to three thousand patients. Mr Williams said the recording of births, deaths, changes of address and the like took a lot of time. He had based his estimates on the time now taken to issue family allowance books, a comparatively simple procedure. The remuneration of these 22,000 clerks would amount to some £9 million a year. Three-fifths of them would do the actual work, the rest being messengers and the like. At this point a jocular reference was made to tea-making. Mr Kaldor thought that witness had probably over-estimated the time necessary in that there would be little necessity for checking entitlement. He pointed out that with a staff of only 31,000 the Inland Revenue dealt with the complicated workings of income-tax for about twenty million people. However, Mr Williams persisted that his estimate of 22,000 extra clerks to issue books was correct.

The Inland Revenue Evidence Resumed

Mr Millard Tucker then went on to question Mr Cockfield on the statement that the saving of ten to fifteen thousand Inland Revenue staff would be accompanied by an increase of twenty-eight thousand in national insurance staff. Witness said he had taken the increase in the number of collectors into account. If tax on subsidiary income were to be deducted at the source there would be many more repayment claims, as also in the case of building society interest exceeding the net annual value of houses owned. If the lower rate of tax were deducted, there would have to be supplementary assessments in many cases. There was no clear solution. The precise estimated saving in Inland Revenue staff was 10,800 but there were so many imponderables that he had preferred to give round figures of ten to fifteen thousand. In reply to Mr Carrington he said that P.A.Y.E. administration had been enormously simplified since its inception, though little had been done to lighten the employers' share of the burden. By giving new values to existing code numbers on a change of personal allowances, instead of printing new tax tables, it was possible to implement Budget changes within a very short time. He could give no estimate of the burden on employers; for a large, highly mechanized concern it was probably one clerk for every 4,000 employees, for a smaller concern, one clerk for 800 employees, possibly a total of 10,000 clerks. He did not know what the burden of stamping insurance cards amounted to. He agreed with Mr Crick that for the Inland Revenue, the smaller the tax paid by an individual, the greater the cost of collecting it; indeed, in P.A.Y.E. it was practically a standing charge, regardless of the amount of tax. Sir Thomas Gill referred to the six million workers earning over £135 who did not pay any tax. He made the point that it was wrong to say that such people were not affected by income-tax. Many would be borderline cases who would have the fact of income-tax very much in mind when considering whether or not to work overtime.

The Next Meeting

The next public meeting will probably take place in the autumn.

CHARTERED ACCOUNTANTS AT CRICKET

ANNUAL MATCH WITH LAW SOCIETY

At the Institute's annual match with the Law Society at the Hurlingham Club on July 8th, the toss was won by the Chartered Accountants and M. I. Makin and S. R. Lang opened the innings on an easy-paced wicket. Lang scored at a fast pace until he was given out behind the wicket when he had made 29, and E. B. Palmer then joined Makin. After scoring 12 runs Palmer was caught at mid-on with the score standing at 53. However, his departure was followed by a really good stand by Makin and J. Pickering, who carried the score to 129 for 3 before the former was beautifully run out by Jones.

Time was by now getting on and the remaining Institute batsmen endeavoured to force the pace; soon after 4 p.m., however, the Institute had to be content with a score of 214 all out.

The Law Society opened their innings with exactly 2½ hours in which to make the required number of runs, and it certainly looked as if they would have no difficulty in achieving this. W. F. Goold scored freely, and the first 50 runs came in the half-hour before tea. After tea, J. Pickering, who had bowled very steadily, managed to secure S. Mundy's wicket, and almost immediately Goold was caught and bowled by E. H. Morland.

These two successes opened up the game; E. H. S. Singleton scored steadily, but when M. J. Rosenberg and T. M. Sutton-Mattocks were dismissed the Law Society had lost four of its strongest batsmen for 145 runs.

Almost immediately afterwards Singleton was clean bowled by G. Ford, and with an hour left for play the Institute team began to anticipate the possibility of victory.

W. E. Jones batted next with W. O. Nicholls, his innings being high-lighted by two magnificent sixes before he lost his wicket to a splendid catch in deep field by Pickering. At this stage of the game there was only enough time left for two more overs, and as a result of accurate bowling the Law Society were unable to obtain the 11 runs needed to win, so once again both sides had to be content with a draw.

The scores were as follows:

THE CHARTERED ACCOUNTANTS

M. I. Makin, run out	49
S. R. Lang, b. Nicholls	29
E. B. Palmer, c. Jones, b. Goold	12
J. Pickering, c. Jones, b. Goold	44
D. A. J. Manser, b. Jones	5
E. M. A. Reid, b. Goold	20
G. Ford, b. Goold	13
G. V. Pearse, b. Goold	12
E. I. Terrell, c. Jones, b. Goold	21
L. W. Robson, b. Jones	4
E. H. Morland, not out	4
Extras: l.b. 1	1
TOTAL	214

Bowling: W. E. Jones 15–2–64–2, W. F. Goold 19–5–62–6, W. O. Nicholls 9–2–30–1, T. L. Outhwaite 10–1–31–1, M. J. Rosenberg 6–1–26–0.

THE LAW SOCIETY

S. Mundy, c. Morland, b. Pickering	18
W. F. Goold, c. and b. Morland	60
E. H. Singleton, c. Reid, b. Ford	26
M. J. Rosenberg, b. Ford	18
T. M. Sutton-Mattocks, b. Pickering	21
W. E. Jones, c. Pickering, b. Morland	28
W. O. Nicholls, not out	16
J. B. Sweetman, not out	4
Extras: b. 13	13
TOTAL (6 wkts)	204

Bowling: G. Ford 14–0–84–2, E. H. Morland 13–0–60–2, J. Pickering 15–2–46–2, E. I. Terrell 2–1–11–0.

NOTES AND NOTICES

Personal

MR ARTHUR BARRON, F.C.A., principal of the firm of A. BARRON & Co, of 2 Clement's Inn, Strand, London, WC2, announces that, with effect from July 1st, 1951, he has taken into partnership Mr ARTHUR NORMAN BASS, A.C.A., and that the practice will be carried on under the name of BARRON, BASS & Co.

MR WALTER LOVATT, F.A.C.C.A., announces that, as from July 16th, 1951, he has taken into partnership Mr GEORGE OLDMAN SUTTON, A.C.A. The practice will continue to be carried on at 7 Western Road, Hove, 2, Sussex, under the existing firm name of WALTER LOVATT & Co.

MESSRS WARMSLEY, HENSHALL & Co, Chartered Accountants, of 29 Eastgate Row, North Chester, announce that they have taken into partnership as from April 1st, 1951, Mr JOHN GREGSON RAYMOND, A.C.A. The name of the firm remains unchanged.

MESSRS CARNABY HARROWER, BARHAM & Co, of College Hill Chambers, London, EC4, and 13 High Street, Guernsey, announce that Mr KENNETH JOHN ROWE, A.C.A., has, as from July 1st, 1951, been admitted into partnership in their Guernsey practice, of which he has been resident manager for the past two years.

Obituary

GEORGE WALTER STREET, F.S.A.A.

We have learned with regret of the sudden death, on Sunday, July 15th, of Mr George Walter Street, F.S.A.A., senior partner in the firm of Messrs Street, Ibbotson & Co, Incorporated Accountants, of Manchester, Rochdale and Congleton.

Mr Street qualified in 1924 and commenced in practice in 1930. He became a committee member of the Incorporated Accountants' Society of Manchester and District in 1938, was later honorary treasurer

and then vice-president. In June of last year he was elected president.

An enthusiastic sportsman, Mr Street was particu-arly interested in football and cricket, and had been fast bowler for the Old South Manchester Cricket lub. In later years he was a keen golfer.

Mr Street had a quiet, unassuming manner with tural qualities of leadership; his death in his fifty-urth year is a sad loss to the profession, and in articular, to the Manchester and District Society of which he was a most popular president.

East Anglian Chartered Accountants Students' Association

The tenth annual report for the year ended March 31st, 1951, of the East Anglian Chartered Account-ants Students' Association, shows that the total membership of the Association is 139. A tuition course on the lines of previous ones was held in Norwich in September 1950, though there was a decline in the number who attended. The Tuition Committee, showing concern at the drop in attend-ance (which was further accentuated at the April 1951 course) gives a warning that it may not be financially possible for the courses to be held in future if the drop continues.

A series of five lectures in Norwich, two lectures in Ipswich, and visits to two industrial installations in Cambridge were arranged during the year. The officers of the Association for the ensuing year are as follows:

President: Mr G. A. E. Oldfield, A.C.A.

Committee: Messrs K. T. Boardman, A.C.A., D. H. Gilbert, G. M. Stannard, S. P. McGuire, A. J. Bowman-Vaughan, C. E. Eldred, J. M. Page.

Hon. Auditors: Mr J. D. Macdonald and Mr N. A. E. odd.

Hon. Secretary and Treasurer: Mr D. C. Denman, elverton Hall, near Norwich, Norfolk.

The Hospital Service Plan

ndon Association for Hospital Services which the Hospital Service Plan – a voluntary scheme providing financial facilities for treatment in hospital private wards – further improvements to benefits concern the scheme for pupils the benefits for specialists' gations ordered by specialists reatment.

In Parliament

P.A.Y.E.: Evasion

Major LEGGE-BOURKE asked the Chancellor of the Exchequer if he is aware that the present machinery designed to deal with the collection of pay-as-you-earn from those changing employers during the year is inadequate to prevent tax evasion; and what steps he is taking to improve this machinery.

Mr JAY: The scope for fraud under the present machinery is very limited, and I am satisfied that the safeguards operated by the Inland Revenue are adequate.

Major LEGGE-BOURKE: Would the hon. gentleman bear in mind that form B. 45, which the old employer has to fill in, places no responsibility on the new employer but merely gives him information as to past taxation that has been taken from the employee; and would he see whether some system can be introduced to remind the new employer that he has an obligation to take P.A.Y.E. from those who should be paying it?

Mr JAY: I think that is already done, but I will cer-tainly look into it.

Hansard, July 17th, 1951. Oral Answers, Col. 1062.

Taxpayers: Income Returns

Mr PITMAN asked the Chancellor of the Exchequer whether the Inland Revenue inquiry into failure by tax-payers to return all their income has been com-pleted; and with what results for returns by book-makers.

Mr JAY: The inquiry has been completed, but it was directed to examining the best methods of dealing with the under-assessment of profits; no statistical investigations were made into the measure of under-assessment of particular trades or occupations.

Hansard, July 17th, 1951. Written Answers, Col. 89.

Post-war Credits

Mr OLIVER asked the Financial Secretary to the Treasury by what authority post-war credits, which have matured by reason of a deceased person having attained the age of 65 years before his death, are with-held from the executors or administrators for dis-tribution notwithstanding the deceased person's right to have his post-war credits credited to him for his own use during his lifetime, had he made a claim.

Mr JAY: Section 26, Finance Act, 1946, authorizes payment of post-war credits only where the holder makes a written application showing that he satisfies the conditions laid down, including the condition relating to his age.

Hansard, July 17th, 1951, Written Answers, Col. 87.

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The Professional Classes Aid Council

The Council reported last year that the finances were in a more satisfactory state than for some time. Unfortunately the thirtieth annual report for the year ended March 31st last, shows that the improvement has not been maintained, for the accounts disclose a deficit of £1,094, the actual figures of income and expenditure being £14,937 and £16,031 respectively.

Four classes of financial aid were given during the year: from the annual grant fund, 58 people – mainly elderly and infirm – were helped, £3,051 being distributed; many requests for aid towards educational expenses came from parents and guardians, and the Council made grants of £4,186, helping 116 children – 66 boys and 50 girls; the amount spent on training was £1,338, and 43 students were helped; grants for general relief, such as temporary maintenance, life insurance premiums and convalescence, amounted to £2,056.

The Council is composed of representatives of almost all the great professional bodies, among which are the Institute of Chartered Accountants in England and Wales, the Society of Incorporated Accountants and Auditors and the Association of Certified and Corporate Accountants.

The Secretary of the Council is Miss G. M. Walters, and the offices are at 20 Campden Hill Square, London, W8.

Parcel Post Rates Higher

On and from Monday, July 30th, the inland parcel postage rates are to be increased by 1*d* at each of the first three steps of the weight scale and by 2*d* at each subsequent step, while the rates for parcels sent by post from the United Kingdom to the Irish Republic will be increased by 3*d* at each step of the scale.

Recent Publications

THE ELECTRICITY STATUTES, ORDERS AND REGULATIONS, Second Edition, compiled by Norman Elliot. xxx+560+lxxii pp. 9½×6. 21*s* net. South-Eastern Electricity Board, Hove, Sussex.

WHILLANS' TAX TABLES, 1951–52, by George Whillans, F.I.B., F.T.I.I., F.R.E.S. 10×6. Single copies 3*s* 6*d* net, six copies or more 3*s*, twenty-five copies or more 2*s* 6*d*, post free. Butterworth & Co (Publishers) Ltd, London.

PRINCIPLES OF TEACHING APPLIED TO BOOK-KEEPING AND ACCOUNTS, by J. H. Williams, B.Com.(Lond.) vii+147 pp. 7½×5. 12*s* 6*d* net. Sir Isaac Pitman & Sons Ltd, London.

ACCOUNTS CONSOLIDATED IN FIVE STAGES (Papers consisting of text, plan-account diagrams and examples), by Ancrum Evans, T.D., A.C.A. 15*s* 6*d* net. Celoplan Publications, London.

Our Contemporaries

THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (May.) 'Costs and Production Standards', by Harold B. Williamson, A.I.C.A.

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (June.) 'The Criteria for Professional Status', by J. E. Smyth, M.COM., C.A.

ACCOUNTANCY. (July.)

THE JOURNAL OF ACCOUNTANCY. (New York.) (July.)

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (June.)

Other Publications Received

THE BANKER. (July.)
THE CHAMBER OF COMMERCE JOURNAL. (July.)
INTERNE BEDRIJFS ORGANISATIE. (Amsterdam.) (June.)
REVISION OG REGNSKABSVAESEN. (Copenhagen.) (June.)
THE SECRETARY. (July.)
THE INTERNAL AUDITOR. (New York.) (June.)
THE ILLINOIS CERTIFIED PUBLIC ACCOUNTANT. (Chicago.) (June.)
JOURNAL OF THE INDIAN INSTITUTE OF ACCOUNTANCY AND TAXATION. (New Delhi.) (June.)
THE JOURNAL OF THE INSTITUTE OF ARBITRATORS (INCORPORATED). (June.)
ACCOUNTING REVIEW. (Menasha, Wisconsin.) (July.)
SECRETARIES' CHRONICLE. (July.)
THE ACCOUNTANCY JOURNAL. (Delhi.) (June.)
THE ROYAL ARMY PAY CORPS JOURNAL. (Summer, 1951.)
JOURNAL OF THE ROYAL SOCIETY OF ARTS. (July.)
THE ACCOUNTANTS' DIGEST. (Burlington, Vermont.) (June.)

Corrigenda

In the penultimate line of the leading article entitled 'Estate Duty and the Family Business' in our last issue, the word 'exert' was misprinted as 'exact'.

Similarly, in a Weekly Note headed 'Fr... by Director', in the same issue, the name of Mr Jus... Scatfeild was, unfortunately, mis-spelt.

SEVENTY-FIVE YE...S AGO

FROM The Accountant OF JULY 29th, 1876

Extract from:

The Money Market

The influx of gold to the Bank continues, the return showing increased strength, the coin and bullio... amounting to £33,037,926. This vast amount lyin... idle tells badly for the trade of England, although great part of it is in consequence of a want of ven... which, until the last few years, has usually bee... in foreign loans, now undoubtedly closed fo... time; yet it points to the stagnation in trade... of confidence. It is impossible for this ... trade to last without seriously affecti... with young firms it must, indeed, ... upon their resources, and if it ... otherwise than end in catastr... not had time to put by a... emergencies.

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The Accountant

ESTABLISHED 1874

AUGUST 4TH 1951 VOL. CXXV NO. 3998

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DIVIDEND FREEZE

EACH year the country awaits with trepidation the Budget speech and Finance Bill, and follows them with careful calculations of the consequences of the Government's declared fiscal policy for the coming twelve months, naturally assuming that the worst is known. The last Budget gave particular reason for this assumption, introducing as it did a record high rate of income-tax and a 66 per cent increase in profits tax. It has been followed by a spate of new issues and offers of shares on terms based on forecasts made in the light of the declared programme. These forecasts have now been completely falsified by the abrupt and unexpected introduction of a three-year strict limitation of dividends, announced on July 26th, 1951. As a result, large numbers of investors have lost heavily, both in income and in capital. This, however, is only one of the regrettable consequences of the CHANCELLOR's second thoughts.

The inevitable confusion caused by the announcement is increased by the fact that the text of the necessary Bill will not be released until next October; in the meantime there is merely a hurriedly concocted and incomplete summary of it in a White Paper[1] which raises as many questions as it answers. Nothing is said of the existing power to apportion undistributed profits among shareholders for sur-tax purposes, which is automatic in the case of private investment companies. Is the shareholder to pay sur-tax on income which the law forbids him to have?

What is already clear is that those companies which have persistently ignored the call to limit dividends will escape scot free, while those which have co-operated will be penalized. On the other hand the popular assumption that those British registered companies which have removed their management and control abroad will escape, seems to be wrong, since the freeze will apparently apply to all companies incorporated here – a fact which is not likely to please their overseas shareholders.

The CHANCELLOR did not claim that the measure itself would reduce inflation, indeed its direct effect on that problem will be negligible. He based his reasoning on the psychological effect which rising dividends have on wage-earners, saying that they inevitably act as a continual irritant on the majority of the population who are not shareholders. Even if this were true, it is doubtful whether the universal *schadenfreude* which the CHANCELLOR hopes to arouse in the breasts of the workers will in fact dissuade them from claiming wage increases despite the continuing rise in prices. Falling profits and dividends in the past have not noticeably reduced wage demands, as witness the history of wage negotiations in the British Railways. In any case, there is little logic in believing

[1] 'Control of Dividends', H.M.S.O. Cmd. 8318. 3*d* net.

that a temporary deferment of the shareholders' right to enjoy his company's profits is sufficient consideration for the worker's complete abandonment of a present increase in wages.

Another strange excursion in logic is the method used by the CHANCELLOR to demonstrate the rise in dividends. A company pays dividends out of net taxed profit and it is this net sum which reaches the shareholder's pocket and is relevant to inflation considerations (assuming that the bulk of it is not taken in sur-tax). The CHANCELLOR however compares notional gross dividends, after adding back tax at the standard rate, so that the recent increase in rate from 9*s* to 9*s* 6*d* by itself produces an apparent increase of nearly 5 per cent in dividends distributed.

The text of the White Paper indicates promises that the proposed Bill will accord with the worst traditions of Finance Bill drafting. The Bill will limit the gross amount of all dividends, including cash bonuses and other distributions not being repayments of capital. Fixed rate dividends, but not the participating element of preference dividends, will be exempt. The upper limit will be one of the following three standards, at the company's option:

(*a*) The average of the amounts distributed for the last two accounting periods for which, before July 27th, 1951, a final dividend has been either paid or publicly announced, adjusted up or down if such periods fall short of, or exceed, twelve months. A similar adjustment will be made where the 'relevant capital' is greater or less than it was at the beginning of the standard period.

(*b*) Five per cent of the 'relevant capital' at the end of the period for which the dividends are paid. However, new capital is disregarded if throughout the period it did not rank for dividend. If it did not rank for dividend for a portion of the period, a corresponding portion of it is disregarded. The Treasury may increase the 5 per cent in exceptional circumstances but the CHANCELLOR has intimated that they will use this power only in 'very special cases'.

(*c*) Ten thousand pounds, regardless of the number of shareholders. The fewer these are, the more generous the limit.

In each case the limit is based on an accounting period of twelve months and is adjusted for periods of different lengths. Relevant capital means paid-up share capital but excludes capital carrying a fixed rate dividend and bonus shares issued since the beginning of the standard period, whether limit (*a*) or limit (*b*) is chosen. Thus most bonus shares issued since the tax on them was repealed will be ignored for the purpose of computing how much profit the company may distribute.

A company which had not completed two accounting periods by July 27th, 1951, has a special standard in place of the three optional standards detailed above. It follows that the overriding minimum of ten thousand pounds will not apply to it. The special standard is 7 per cent of the relevant capital, as already defined, at the end of the accounting period in question. The 7 per cent may also be increased by the Treasury, but again only in exceptional circumstances.

A dividend expressed to be paid for the accounting period during which it is in fact paid relates to that period for the purpose of the control. In all other cases, it is deemed to relate to the last accounting period ended before it is paid, no matter what period it is expressed to be for. These rules apply not only to dividends subject to control but also to dividends of the standard period. Any attempt to increase standard (*a*) by declaring an additional final dividend for the second half of the standard period will be thwarted by a provision that the addition shall be deemed to be for the period in which it is paid.

There can of course be no direct prohibition of dividends paid before the Bill becomes law. Nevertheless if dividends are paid or declared for the current period to an amount which exceeds what would be permissible if the Bill were passed, the excess, in so far as it was declared after July 26th, 1951, will be deducted from the permissible dividends of subsequent periods.

The White Paper cites two examples of what it calls evasion of the control. These are, converting shares into preference shares, and repaying capital, notwithstanding its own statement that mere repayment of capital will not be controlled. It promises measures designed to defeat these and other, unspecified, devices. Little ingenuity is required to think of several of these, and if all of them are to be prohibited, whether bona fide or not, the role of shareholder may well cease to have any attractions at all.

THE BANKS AND THE ROYAL COMMISSION

THE British Bankers' Association has submitted to the Royal Commission on the Taxation of Profits and Income a memorandum which contains some interesting figures showing how the financial position of small and medium-sized companies has worsened in the four years ended in 1950. The Association recalls that in 1945 the country's economy was highly liquid, both absolutely and in relation to the national income. It gives statistics to show that since that time there has been a marked shift in the ownership of bank deposits away from companies and the like to individuals, although the production account shows an increase between 1946 and 1950 of over 40 per cent in turnover.

More direct light is thrown upon the changes in the liquid position of businesses by a special inquiry into a sample of 1,514 companies, each with a capital not exceeding £100,000. The sample is of course slightly biased in that a company's balance sheet does not become available to its bank unless the company is a borrower. Although figures for partnerships and individual traders have not been taken, the Association says that in the experience of the banks these are worse off than companies. The sample shows that the aggregate cash or equivalent resources of all the companies fell from £18,662,000 in 1946 to £14,112,000 in 1949–50, while the total of bank overdrafts rose in the same period from £13,998,000 to £30,589,000. The value of the stocks carried was more than doubled, although their physical quantity is probably not very much greater. In the Association's view the inquiry amply confirms the general impression that the rise in business financial requirements has outpaced capital resources, that although the stringency is not yet so acute as is sometimes supposed, serious difficulties may arise if the inflation continues or a depression supervenes.

Among the factors which have produced the stringency the Association regards as of overwhelming importance the present practice of basing depreciation allowances on historical cost and of taxing the apparent profits which an inflationary rise in stock prices throws up.

> 'To the economist, if not to all accountants [says the memorandum], it appears self-evident that the true profits cannot exceed the receipts . . . after providing for the replacement of the physical capital used in earning the profits . . . i.e. after allowing for the wearing out of fixed assets and replacing circulating capital embodied in the output . . . both of which, in a continuing business, have to be maintained.'

Accordingly, while praising the exposition of this problem in the TUCKER Committee Report, the Association wholly rejects the Committee's conclusion that no special relief in respect of inflation should be given. The memorandum asserts that if the present inflation had been only a little more rapid in its onset the problem would have been faced and dealt with. It had been dealt with in other countries, less heavily taxed than this. Although the estimate of total undistributed profits this year stands at only £690 million, the Economic Survey for 1951 estimates that £700 million will be required by companies and public authorities to finance stock appreciation. The memorandum reminds the Commission that the suspension of initial allowances will be directly contrary to the recommendation of the TUCKER Committee that they be selectively increased.

The familiar arguments in favour of depreciation and amortisation allowances for all wasting assets are repeated and a plea is made for a reduction in the tax burden on that part of profit which is put to reserve for development and expansion. The memorandum attacks the negative character of the provisions relating to deductible expenditure in arriving at taxable profit, and promises further representations on these.

On the general effect of direct taxation, the Association considers that the present steeply graduated rates should be lowered and made less abrupt, so as to strengthen incentive. This reduction should be accompanied by increases in indirect taxation or the partial withdrawal of subsidies. Although the Association views the recent migratory trends of British companies with concern, it points out that the proposed measures to stop these trends will deter both British enterprise abroad and the import of foreign capital.

Banking opinion is impressed by the argument that to link income-tax personal allowances with social security would reduce administrative costs, but it would view with regret any loss of identity between contributions and benefits.

ANOTHER VIEW ON ORTHODOX PROFITS

by JEFFERY ENGLISH, A.C.A.

The author says: 'By blindly applying accounting principles without comprehending their underlying meaning, the self-styled "orthodox accountants" have themselves gone right off at a tangent. The basic principles, evolved long ago, are as valid now as ever: but unless we apply them intelligently and use the right one in the right place, principles degenerate into dogma, and truth and fairness depart from our midst.'

A GREAT deal of nonsense has recently been talked about profits, reaching its lamentable climax when seemingly quite intelligent people are seriously asking 'what is profit?' Much of it appears to centre around an alleged difference between the economist's concept of 'real profit' and the figure produced by the accountant applying his 'accepted accounting principles'. In point of fact, there is no such difference, and the two are identical.

There is nothing whatsoever wrong with the 'accepted accounting principles' themselves: but what is wrong, and very wrong indeed, is the way in which they are now being applied. 'Principles', essentially, are in the plural, and there are more than one of them: and the trouble at the moment appears to arise solely from the fact that accounts are being drawn up, certified, published, and generally accepted (and used not only by the Inland Revenue, but also as the most virulent political propaganda) based throughout on the wrong one of these most excellent 'principles'. If the referee's looking at the wrong page, it's no good blaming the rule-book: and the fact that accountants are almost universally misapplying the rules, doesn't in any way prove that the rules themselves need overhauling.

Basic Principles and Inflation

Let me amplify. Every text-book, however old, on book-keeping and accounts, has a stereotyped section on how to deal with the accounts of foreign branches. Firstly one comes to the branch in the country working on a fixed rate of exchange, which is easy. And then one deals with the rascally foreigner whose exchange rate isn't so stable; so we rightly proceed to convert all his figures into rock-steady sterling, and by using different rates of exchange for different debits and credits, we swiftly remove all the unstable elements, working out what the branch profit *really* was, and writing off any loose ends to 'profit or loss on exchange'. And very careful we are, too, to show 'net profit' as the final amount *after* the 'loss on exchange' – only looking at the intermediate figure if we want a comparison with a previous year's results. You see what I mean? – we quite successfully completely iron out all the effects of currency inflation, and we only show as net profit what our friends the economists would agree was 'real profit'.

Having, however, for decades thus insisted on putting the fickle foreigner's house in order for him (working out a most admirable and thoroughly 'accepted accounting principle' to cope with it), we appear unfortunately rather to have neglected the out-sized beam that is rapidly dimming our own eye. If the foreigner goes sedately on for a number of years at a fixed rate of exchange, we apply the 'fixed' procedure quite correctly; but at the very first sign of his stepping off from the primrose path, we clamp down immediately with the 'fluctuating' procedure, and coldly view him in his true perspective, quite unbiased by any of his crafty manipulations of the currency. Here at home we carried on for years on a reasonably stable basis; but now that the value of money is slipping from day to day, have we made the slightest attempt to apply our 'ironing-out' principle to ourselves? We have not. We're still blithely using procedure No. 1 and bemusedly wondering why it so ill befits situation No. 2.

Let us see exactly what this means in terms of a concrete example. To do so we'll consider a foreign branch; and firstly, we'll set up our yard-stick by taking the case where the local currency, the Fickle, has stayed put all through the years at twenty to the £ – and this is shown at schedule No. 1.

Stable Currency Conversion

SCHEDULE No. 1
TRIAL BALANCE

	Fickles		*Rate*	*Sterling*	
Capital		55,200	20		2,760
Fixed assets ..	48,000		20	2,400	
Opening stock ..	7,200		20	360	
Purchases ..	60,000		20	3,000	
Sales		82,800	20		4,140
Expenses ..	9,720		20	486	
Closing stock ..	12,000	12,000	20	600	600
Depreciation ..	9,600	9,600	20	480	480
Cash	13,080		20	654	
	159,600	159,600		7,980	7,980

Profit and Loss Account

Sales		4,140
Opening stock	360	
Purchases	3,000	
	3,360	
Closing stock	600	
	2,760	
Expenses	486	
Depreciation	480	
		3,726
Net profit		414

Net profit: 10 per cent on turnover, 15 per cent on capital.

All is well. You have carefully examined Schedule No. 1, and you will have observed that we have made a profit of £414, which equals 10 per cent on our turnover or 15 per cent on our capital. The profit and loss account is expressed in sterling, but if you like you can multiply throughout by twenty and convert it all back into Fickles – this in fact being done for another purpose in Note 1.

But now let us take an identical year's trading, with the Fickle gradually depreciating. Volume is unchanged, so the trial balance is made up appropriately. Just how it is made up is shown in detail at Note 1: but the essential rates of exchange assumed are:

Date of purchase of fixed assets, provision of capital, and beginning of year	20 Fickles to £
Average for year under review	25 Fickles to £
End of year	30 Fickles to £

Not many businesses operating today have suffered so little, and are in a position to say that their fixed assets (on which they are getting their tax allowances) cost only two-thirds of today's prices. Most would put it at a half or even less; and the index of wholesale prices over the past year shows a 50 per cent rise: so the rates we are taking are really quite reasonable, and in no way exaggerated.

Fluctuating Currency Conversion

Schedule No. 2

Trial Balance

	Fickles		*Rate*	*Sterling*	
Capital		55,200	20		2,760
Fixed assets	48,000		20	2,400	
Opening stock	7,200		20	360	
Purchases	75,000		25	3,000	
Sales		103,500	25		4,140
Expenses	12,150		25	486	
Closing stock	17,400	17,400	29	600	600
Depreciation	9,600	9,600	20	480	480
Cash	16,350		30	545	
				7,871	7,980
Loss on exchange				109	
	185,700	185,700		7,980	7,980

Profit and Loss Account

Sales		4,140
Opening stock	360	
Purchases	3,000	
	3,360	
Closing stock	600	
	2,760	
Expenses	486	
Depreciation	480	
		3,726
Profit on trading		414
Loss on exchange		109
Net profit		305

Profit on trading still 10 per cent on turnover, 15 per cent on capital.

The 'loss on exchange' is accounted for by the fact that cash realized from sales and not reinvested in stock or used for expenses was earned at Fickles 25 to £. When earned and realized, therefore, it was worth £654. It is now worth only £545 at Fickles 30 to £, and has therefore depreciated in value by the difference of £109. All the other assets have, as a result of this accounting procedure, 'ridden the waves' of inflation.

Right. You have now examined Schedule No. 2. And doubtless you will have observed that although the 'currency' figures have changed out of all recognition, our sterling conversion shows precisely the same profit on trading as did our yard-stick, Schedule No. 1. Still 10 per cent on turnover, still 15 per cent on capital – all the 'inflation' has been ironed out simply by the application of this long-established principle. We have, however, suffered a loss in the purchasing power of our actual cash: and this has been isolated and thrown up separately, showing precisely how much inflation really has cost us. Our other 'real' assets have ridden the waves and gone up in terms of money just as money has gone down, so no loss on these has been sustained: but on the other hand, there is no obscuring of the position with paper 'profits'.

The system works, and has worked for years; and in fact should any examinee, sitting for his accountancy examinations fail to apply it, he would certainly never get through. But just suppose, for one moment, that he was so woefully ignorant, what would be the result of his efforts? Apart from very rightly failing his examination, he'd produce Schedule No. 3.

Fluctuating Currency: No Conversion

Schedule No. 3

Trial Balance

Capital		55,200
Fixed assets	48,000	
Opening stock	7,200	
Purchases	75,000	
Sales		103,500
Expenses	12,150	
Closing stock	17,400	17,400
Depreciation	9,600	9,600
Cash	16,350	
	185,700	185,700

PROFIT AND LOSS ACCOUNT

Sales		103,500
Opening stock	7,200	
Purchases	75,000	
	82,200	
Closing stock	17,400	
	64,800	
Expenses	12,150	
Depreciation	9,600	
		86,550
'Net profit'		16,950

'Net profit' now 16·4 per cent (10 per cent) on turnover; 30·7 per cent (15 per cent) on capital.

Profit on trading is seen to have arisen from 10 per cent (which we know to be correct) on turnover, to 16·4 per cent. On our capital, it has rather more than doubled from 15 per cent to over 30 per cent. Volume was the same: margins were the same; the only thing that has altered at all is the value of the currency – so to say that we've doubled our return on capital is patently absurd. Yet this, unhappily, is precisely what we are now doing every day in this country, by omitting to apply the 'fluctuating' procedure to business accounts as our own currency tumbles. Instead of showing that the 'loss on exchange' has eaten into our profit on trading to give us a net of only 11 per cent (Schedule No. 2: £414 less £109, £305), we gaily show it as having more than doubled: and then we wonder why people (and company chairmen in particular) are begining to resent it. In truth, they're beginning to criticize us for just the same reason as we should criticize the wretched student who failed his examination, who applied the wrong procedure to his foreign branch and showed so hopelessly inaccurate a result. For inaccurate it is, and in just which way, Schedule No. 4 sets out.

Inflation Elements Identified

SCHEDULE NO. 4
TRIAL BALANCE

	Sterling		*Rate*	*Fickles*	
Capital ..		2,760	25		69,000
Fixed assets ..	2,400		25	60,000	
Opening stock	360		25	9,000	
Purchases ..	3,000		25	75,000	
Sales		4,140	25		103,500
Expenses ..	486		25	12,150	
Closing stock	600	600	25	15,000	15,000
Depreciation	480	480	25	12,000	12,000
Cash	545		25	13,625	
	7,871	7,980		196,775	199,500
Loss on exchange	109		25	2,725	
	7,980	7,980		199,500	199,500

PROFIT AND LOSS ACCOUNT

	Left alone		*Adjusted*		*Error*
Sales		103,500		103,500	—
Opening stock ..	7,200		9,000		1,800
Purchases	75,000		75,000		—
	82,200		84,000		
Closing stock ..	17,400		15,000		2,400
	64,800		69,000		4,200
Expenses	12,150		12,150		—
Depreciation ..	9,600		12,000		2,400
		86,550		93,150	
Profit on trading ..		16,950		10,350	6,600
Loss on exchange..		—		2,725	2,725
Net profit		16,950		7,625	9,325

The trading profit in the 'adjusted accounts' is Fickles 10,350 – 10 per cent on turnover just as if no inflation had taken place. It is also 15 per cent of the 'adjusted capital' – again as if no inflation had intervened. And the actual loss in purchasing power of the one truly depreciating asset – money – is correctly thrown up at Fickles 2,725, the difference between its nominal value (25 to £) when earned, and the 20 per cent fall to the date of the balance sheet.

Schedule No. 4 works on the year's trading average of Fickles 25 to £, and if we take it apart we shall find that the final conglomerate 'profit' arises from four sources:

	Fickles
(1) Net profit	7,625
(2) Loss on exchange (inflation) ignored by failure to convert	2,725
(3) Book 'profit' on inventories	4,200
(4) Out-of-date depreciation	2,400
	16,950

Whether we convert to 'rock-steady sterling', to dollars, to kopecs, or barrels of apples, has no effect on the principle. So long as we convert the different types of transactions each at its own appropriate rate, and then reconvert at our one average trading rate, all the inflation elements will be isolated and clearly shown.

Well, the two procedures exist – there's nothing new or revolutionary in this whatsoever. There's no need for new names, for 'orthodox accounting' versus the ' "new" replacement cost accounting'. This *is* the orthodox accounting, a principle that has existed, been accepted, and (for the foreigner) insisted upon, ever since accounts have been produced: can we unblushingly maintain that the sauce is for the foreign goose, and for export only?

For the Home Gander

We may feel disinclined to start reshaping our accounts completely; but even if we fear to tread

where I.C.I. and others are leading, even if our traditionalists insist on still applying the 'fixed' procedure and showing all our figures as at present, surely the least we can do is to give some abbreviated analysis of the final item, splitting our 'profit' between that earned, and that thrust upon us. Show:

	Fickles
Profit earned by the company	7,625
Additional book 'profit' due to inflation ..	9,325
	16,950

This at least would be some contribution, something concrete not only to help our clients ward off the smear of 'profiteer', but also to warn them in exact terms (not mere generalities) of what inflation is doing to them.

Accounts are no longer looked at solely by men who can read behind them. They're used as a basis for ever-increasing wage claims; used quite unscrupulously as political propaganda; they're used by the Inland Revenue to extract up to 14*s* 9*d* in the £; and now, through the increased dividends unwittingly declared from the swollen, spurious profits, we've got what we richly deserve – statutory dividend limitation.

The tool is at our hand, and has been all along, to show quite clearly that industry hasn't been reaping such a golden harvest as its denigrators claim: but instead of using it, we continue to lump the genuine profits and the paper profits together, and solemnly testify the meaningless whole as the 'true and fair profit for the year'.

The only long-term, real answer is to apply our 'fluctuating procedure' *in toto*. LIFO, replacement reserves, asset revaluation, and so on each nibble separately at one aspect of the problem – none of them, incidentally dealing with cash depreciation, the third item in our list of inflation elements: but our own established, neglected, but thoroughly workable procedure deals with them all at once, not only showing a true profit, but also producing a balance sheet more in keeping with the layman's concept of a 'true and fair view of the state of affairs'. And with laymen and politicians in the saddle, we ignore their views at our peril.

There are practical difficulties – there always are – but they're difficulties, not impossibilities, and we are, in all conscience, accountants, not mere automata and book-keepers. And so there we are, able to do it even if unwilling: but even if there are some amongst us who just couldn't stomach the detail of altering our whole trial balance, surely the least that we owe to our clients, even whilst showing the whole of the accounts exactly as at present, is to sound our minimum warning as above, even if not being quite so brash as to show in detail:

	Fickles
Net profit earned	7,625
Add Paper 'profit' arising from failure to apply the accepted accounting principles, evolved by our forefathers but unavailingly taught us in our youth ..	9,325
Total entirely meaningless figure, used by shareholders demanding larger dividends, blamed for high prices and the high cost of living, certified by us to the Inland Revenue as correctly taxable to the hilt, and a gift to the left-wing propagandists	16,950

Either it's that, or it's time we were consistent and re-wrote our foreign exchange text-books.

NOTE 1: BUILD-UP OF FLUCTUATING CURRENCY TRIAL BALANCE

To obtain the correct currency figures for the trial balance in Schedule No. 2 we proceed as follows:

Fixed assets, capital, and opening stock – no change.

Depreciation – still 25 per cent on fixed assets – no change.

Expenses – exchange rate has gone up from Fickles 20 to Fickles 25 to £ (average for year), an increase of 25 per cent. Expenses therefore up from Fickles 9,720 to Fickles 12,150.

Purchases, sales, and closing stock – go back to units, thus:

In Schedule No. 1 we bought at Fickles 1,200 per unit, and sold for Fickles 1,800 per unit:

Sales			46	82,800
Opening stock ..	6	7,200		
Purchases	50	60,000		
	56	67,200		
Closing stock ..	10	12,000		
	46	55,200	46	82,800

The average rate of exchange for the year was Fickles 25 against Fickles 20 to £, an increase of 25 per cent. Purchases would therefore be at Fickles 1,200 plus 25 per cent per unit, a total of 50 units at Fickles 1,500 = Fickles 75,000. Sales would similarly be at Fickles 1,800 plus 25 per cent, a total of 46 units at Fickles 2,250 = Fickles 103,500. Assuming that purchases were made evenly over the year, the closing stock of 10 units represents one-fifth of the year's purchases. These, on the usual 'first-in, first-out' valuation basis, would be the last 10 units purchased, in the last fifth of the year. At a steady rate of inflation, the exchange rate would have been, for the last fifth (or two-tenths) of the year, Fickles 29 to £, an increase of 45 per cent. Forty-five per cent increase on Fickles 1,200 gives a 'lower of cost or market' of Fickles 1,740 for the 10 units, so closing stock is valued at Fickles 17,400. Being a 'real' and not a 'cash' asset at the end of the year, it is converted into sterling at the rate ruling at the date of purchase (Fickles 29 to £), and not at the year-end rate.

Cash is the actual amount in the till, and represents the actual amount realized from sales, less that spent out on purchases and expenses.

WEEKLY NOTES

The Institute's Examinations

At the examinations of The Institute of Chartered Accountants in England and Wales, held in May and June 1951, a total of 2,461 candidates sat; 1,103 of these were successful and 1,358 failed to satisfy the examiners. There were 1,133 candidates for the Final, of whom 528 (46 per cent) passed and 605 failed. In the November 1950 examinations 42 per cent were successful. The First Certificate of Merit, the Institute Prize, and the 'Walter Knox' scholarship, were awarded to Mr Derek Ernest Cox, of Grimsby; the Second Certificate of Merit was awarded to Mr Donald James Ironside, of Bristol; the Third Certificate of Merit to Mr Bruce Wilson Sutherland, of Nottingham; the Fourth Certificate of Merit, and the 'W. B. Peat' Medal and Prize was won by Mr John Eric Sargent, of London; the Fifth Certificate of Merit by Mr Charles Buckle Newcomb, of London; the Sixth Certificate of Merit, the 'Frederick Whinney' Prize, and the 'Plender' Prize for the Advanced Accounting (Part I) Paper were awarded to Mr Keith Stanley Carmichael, of Bristol; Mr Thomas Christopher Backshell, of London, was also awarded Sixth Certificate of Merit.

In the Intermediate there were 1,068 candidates, of whom 502 (47 per cent) passed and 566 failed. Passes in the November 1950 examinations were 46 per cent. The First Certificate of Merit, the Institute Prize, the 'Frederick Whinney' Prize and the 'Plender' Prize for the Book-keeping and Accounts (Executorship) Paper, were won by Mr Cecil Digby Holt, of London; the Second Certificate of Merit, the 'Stephens' Prize and the 'Plender' Prize for the General Commercial Knowledge Paper, by Mr Thomas Anthony Tansley, of Bedford; the Third Certificate of Merit, the 'Plender' Prize for the Book-keeping and Accounts (Limited Companies) Paper, by Mr Russell Edwin Chancellor, of London; the Fourth Certificate of Merit by Mr Thomas Alfred John Webster, of Leicester; the Fifth Certificate of Merit and the 'Plender' Prize for the Auditing Paper, by Mr Ian Samuel Spencer Ferris, of London; and the Sixth Certificate of Merit by Mr Brian Piers Aungiers, of London.

In the Preliminary, Mr Donald West, of Chorley was First in Order of Merit, and gained the Institute Prize; a total of 260 candidates sat; of these 73 (28 per cent) passed and 187 failed. In the November 1950 examinations 41 per cent passed.

The full list of successful candidates in all three examinations, together with a summary of the results, appears elsewhere in this issue.

Entertaining and Income Tax

It has long been a moot point of income-tax law whether a trader or professional man can claim to deduct the cost of entertaining customers and clients. Assuming that he can, there arises the subsidiary point of whether money spent on his own part in the entertainment should be excluded from allowances. In *Bentleys, Stokes & Lowless v. Beeson* (H.M. Inspector of Taxes), reported in *The Times* on July 28th, 1951, a firm of solicitors having offices in the City claimed a deduction of £539 in respect of the entertainment of clients at lunch and dinner on occasions when professional advice was given and was charged for in the usual way. Some of the clients were in the West End and were entertained there; otherwise they might have been lost if they had had to make the journey to the City. Moreover, by disposing of consultations at lunch or dinner, the partners were freed for other work while in the office. The Appeal Commissioners rejected the firm's claim that the £539 was expended wholly and exclusively for the purposes of the profession. They appear to have been influenced by the fact that they regarded the expenditure as neither 'necessary' nor entirely divorced from the element of hospitality. On July 26th, 1951, Mr Justice Roxburgh reversed their decision. He held that the expenditure need not be 'necessary' in a strict sense and that the element of hospitality was nevertheless consistent with the purely business nature of the expenditure. He further held that that part of the expenditure which was made on the partner's own lunch or dinner was equally allowable; business would hardly be promoted if the partner sat by eating and drinking nothing. The fact that he got a degree of gratuitous sustenance did not deprive the transaction as a whole of its purely business nature.

Control of Dividends

Those who look for any economic justification in the proposed statutory control of dividends are not only wasting their time, they are also underestimating the intellectual capacity of Mr Gaitskell. A Chancellor of the Exchequer, who is by training an economist, and who went out of his way to pay tribute to the usefulness of the profit-motive as a stimulant to production in his Budget less than four months ago, does not today inveigh against the reward of risk-taking and expect to be congratulated on his sound and consistent economics. The purpose of the Bill to control distribution of dividends for a three years' period is frankly political. 'The psychological consequences of sharp increases in dividends are far greater than their monetary effect.' With this remark and several like it at the same part of his speech last week the Chancellor made it quite clear that he, and the Government, hope that a hastily improvised piece of discrimination against a minority interest will deter the majority from asking for more.

The political *raison d'être* for this move is also the basis of criticism on economic grounds. The intricate legal problems which will be caused by this Bill, if it is enacted, are dealt with in a leading article.

But this piece of imprecise drafting and the attendant mass of work which must follow are based on nothing more substantial than a hope – the hope that the trade unions will desist from asking for higher wages. Here is a mouse which has given birth to a mountain.

Not the least exasperating feature of the Bill is that the House will soon rise for the long recess and return on what may be the eve of an election to consider a Bill with a three years' life. Between now and then business men, the professions concerned in advising them on various aspects of taxation and legislation and the higher civil service will have to endeavour to make out what the Bill implies – and how strong the political chances are of it ever becoming law.

The contribution which higher dividends can make towards increasing inflationary pressure on the supply of goods for the domestic market is small. But it is precisely this pressure which has to be eased if current economic problems are to be solved. Somehow the demand for consumer goods and certain kinds of capital goods for industry will have to be cut down. This can be accomplished only by reducing the mass of the demand from the public, that is, by higher taxation and not by discriminating against one section of the community. Capital goods can only be tackled by using some device such as higher interest rates. At present, symptoms not causes are being prescribed for.

Steel Corporation and Directors

The Iron and Steel Corporation has not taken long to display its control of the election of directors to the boards of the steel companies. Any illusions that it proposed to let the operating companies get along unmolested for the time being with their present management were dispelled last week when the Corporation's moves in the affairs of Thos. Firth and John Brown became known.

The Corporation voted against the reappointment of the managing director and six of the directors at the latest company meeting. In consequence, the chairman has also tendered his resignation although he was asked to continue in office. It is not at all clear as yet what has prompted the Corporation to take this step. It is to be hoped that a full statement will soon be available to the public giving some account of the Corporation's motives; this would certainly be in the interests of the Corporation which by reason of its position is bound to attract criticism, informed or otherwise, about political motives. The principle involved in these board changes is also important enough for the efficient running of the iron and steel industry to make informed public discussion of the issue of the greatest importance.

Better Terms of Trade

For the first time for many months there was a slight improvement in this country's terms of trade during June. The yawning gap between import and export prices has suffered a small but welcome check. The June index prepared by the Board of Trade shows the price of raw material imports at the same level as for May. Heavy falls in such commodities as wool, rubber and hides were sufficient to offset increases in other goods. The awaited relief to the terms of trade which has been on the way since the prices of key commodities broke during the spring has now arrived. It now remains to be seen how extensive that relief is and how long it will last.

Cross-currents in Cotton Textiles

No specific targets for cotton textile exports came out of the recent meeting in Manchester between the industry's representatives and the President of the Board of Trade. Sir Hartley Shawcross stated afterwards that the demands of the export trade would result in some diminution of the flow of cotton goods to the home market but that this decrease should not have a very severe effect on supplies at present since there was a good stock built up for home consumers.

It may be wondered, however, whether the present emphasis on exports is entirely realistic. That the need exists to export as much cotton output as possible is beyond denial. It is also right that the export market should take priority over home requirements. But the goods have to be sold abroad and at the moment there are signs of the development of a buyers' market. Behind that fact there also looms the prospect of imminent and increasingly severe Japanese competition.

With fairly substantial export orders still outstanding, however, and a growing demand for defence requirements plus pressure to maintain a fairly large flow of cotton goods to the home utility market, the industry is exceedingly busy. So if the industry is to push output still higher it faces both a supply and a selling problem.

Britain's Overseas Investments

The Bank of England has brought its statistics of Britain's overseas investments up to date as far as 1949. Total investments in all countries at the end of that year were £2,037 million compared with £1,967 million in 1948 and with £3,545 million in 1938. These figures represent nominal values and do not take into account market values at the end of each year concerned.

The increase from the end of 1948 to the close of 1949 is more than accounted for by devaluation in September 1949. The rise in the value of North American securities following devaluation was £84 million, but the net increase of securities was only £70 million. There was therefore a fall of £14 million over the year in the value of British overseas investments.

Interest and dividend payments were little changed on the year. They increased by only £0·1 million to £116·3 million. Although world price levels were significantly lower ten years before, the earnings from overseas investments in 1938 were £155·4 million. Over the intervening years the rate at which earnings declined was much slower than the rate of fall in the total of investments.

FINANCE AND COMMERCE

Stock markets face three months of acute uncertainty. Equity values have fallen sharply but there has been little selling.

Renold and Coventry Chain

The report of the Renold and Coventry Chain Co Ltd for the year to April 1st, 1951, records the results of an examination of the company's plant and machinery. The origin and history of the various classes and items were scrutinized in detail from which it clearly emerged that the company's high standards of maintenance have resulted in a longer working life than the sixteen years previously used in depreciation calculation. The conclusion has been reached that an average expectation of life of twenty-five years is fully justified.

In the light of the findings of the investigation, the directors have adopted the view that at the date of any balance sheet, the cumulative depreciation plus the re-equipment reserve should represent what the cumulative depreciation would have been if the equipment existing at that date had been acquired at the prices ruling during the year. This, the Board state in further explanation, means that the re-equipment reserve should represent additional cumulative depreciation so that, as far as can be estimated, the aggregate amount of reserve and direct depreciation accumulated during the life of an asset will be sufficient to buy a new asset at the price current when the old one becomes worn out or obsolete.

Accordingly, when an asset is replaced, not only is the amount it has contributed to cumulative depreciation taken out of that account and used to write off the original cost of the asset replaced, but also the amount which it has contributed to re-equipment reserve should be taken out of that

THE RENOLD AND COVENTRY CHAIN COMPANY LIMITED
Profit and Loss Account for the Financial Year ended April 1st, 1951

1949–50						
£	£			£	£	£
508,410			**Profit on Trading for the Year** after taking account of the items mentioned below			**628,751**
		£	Directors and Past Directors			
		4,300	Fees, excluding £132 – *£92* paid by Subsidiaries not consolidated	4,300		
		45,669	Other Emoluments as Executive Directors including Pension Provisions	53,647		
		49,969		57,947		
		1,945	Pensions of Directors and Past Directors in respect of services as Executives	1,945		
		51,914		59,892		
		2,878	*Less* Charged in Accounts of British Subsidiary	2,878		
		£49,036		£57,014		
		£285,130	Depreciation of Properties and Equipment (excluding Land) and Renewals of Tools (see Report of Directors, para. 41, as to change in basis during the year)	£311,565		
			Income from Investments (including £13,281 – *£Nil* recoverable by relief against United Kingdom Taxation in respect of Foreign Tax suffered)			
	5,738		Subsidiaries (for previous year)		35,035	
	4,397		Trade Investment		6,954	
	5,945		Other Investments		5,956	
16,080						47,945
524,490			**Profit for the Year subject to Taxation**			**676,696**
80,000			Profits Tax			112,500
444,490			**Profit for the Year subject to Income Tax**			**564,196**
			Deduct:			
	143,283		Income Tax based thereon (which includes the Reserve of £193,981 for Income Tax 1951–52 – *£137,693 for 1950–51*)		211,225	
	—		Transfer to Future Taxation – Reserve for Equalization of Taxation being Tax on the excess in the year of Wear and Tear, including Initial Allowances, over Depreciation charged		69,500	
143,283						280,725
301,207						283,471
47,000			Transfer to Re-equipment Reserve			58,000
254,207			**Net Balance of available Profit for the Year**			**225,471**
16,147			Overprovision of Taxation in previous years			968
270,354						**226,439**
			Appropriations			
	140,000		To General Reserves		90,000	
		£	To Dividends less Income Tax (see Report of Directors, para. 45)	£		
		9,226	6 per cent Preference Dividend for one year	9,122		
		93,334	17½ per cent Ordinary Dividend, including Final Ordinary Dividend of 14½ per cent now recommended	104,788		
	102,560				113,910	
242,560						203,910
27,794			**Increase in the Year in Unappropriated Profits**			22,529
71,037			Unappropriated Profits of previous years per last account			98,831
£98,831			**Total Unappropriated Profits** as shown on Balance Sheet			**£121,360**

THE RENOLD AND COVENTRY CHAIN COMPANY LIMITED

Balance Sheet as at April 1st, 1951

April 2nd, 1950 £	*April 2nd, 1950* £		£	£
		Capital		
		Authorized		
	1,410,918	Issued – see below	1,410,918	
	89,082	Unissued – Unclassified Shares of £1 each	89,082	
£1,500,000				£1,500,000
		Issued		
	279,608	6 per cent Cumulative Preference Stock (£1 units) ..	279,608	
	1,131,310	Ordinary Stock (£1 units) ..	1,131,310	
1,410,918				**1,410,918**
		Capital Reserves		
	333,528	Share Premium Account ..	333,528	
	75,000	Investment Reserve	75,000	
	11,402	E.P.T. Post-war Refund Suspense Account	11,402	
	—	Equipment Reserve*	35,000	
	175,000	Re-equipment Reserve* ..	796,000	
594,930				**1,250,930**
		Revenue Reserves		
	783,920	General Reserves*	271,612	
	98,831	Profit and Loss Account Balance	121,360	
882,751				**392,972**
		* For Movements on Reserves, see Schedule II.		
		Total Capital and Reserves (other than Taxation Reserves)		
2,888,599				**3,054,820**
		Future Taxation		
	137,683	Reserve for Income Tax 1951–52, payable January 1st, 1952	193,981	
	—	Reserve for Equalization of Taxation (see Report of Directors, para. 30) ..	224,500	
137,683				**418,481**
		Current Liabilities and Dividends		
		Liabilities		
	450,603	Trade and Sundry Creditors..	543,820	
	436,549	Bank Overdraft	495,995	
	95,378	Current Taxation, including balance of Income Tax for 1950–51 included in Reserve for Income Tax in previous Balance Sheet	122,675	
	982,530		1,162,490	
		Dividends less Income Tax		
		£ *2,306* Preference Dividend of 3 per cent payable on July 1st, 1951, Proportionate amount – one-half 2,202		
		74,667 Final Ordinary Dividend of 14½ per cent payable on August 2nd, 1951 (subject to confirmation by Ordinary Stockholders) 86,121		
	76,973		88,323	
1,059,503				**1,250,813**
£4,085,785				**£4,724,114**

April 2nd, 1950 £	*April 2nd, 1950* £		£	£
		Fixed Assets		
		Properties and Equipment per Schedule I.		
	377,567	Land and Buildings	387,898	
	790,282	Plant and Machinery	1,033,395	
	321,089	Furniture and Equipment ..	418,189	
	1,488,938		1,839,482	
	118,777	Tools at written-down balance (renewals charged to Revenue)	139,846	
	6,577	Trade Investment at Cost ..	6,577	
	12,524	Unsecured Loan to an Associated Company	16,767	
1,626,816				**2,002,672**
		Interests in Subsidiaries		
	239,122	Shares at Cost less amount written off	279,914	
	152,068	Loans to and other amounts owing by Subsidiaries ..	209,175	
	391,190		489,089	
	17,123	*Less* Unrealized Profit on Inter-company Sales ..	18,402	
374,067				**470,687**
		Current Assets		
	1,250,152	Stock-in-Trade	1,191,201	
	626,106	Trade and Sundry Debtors and Bills Receivable	851,771	
	202,937	British Government and Other Quoted Investments (Market Value at April 1st, 1951, £201,455 – *£201,486*) ..	202,855	
	5,707	Balance at Bank, Cash in Hand and in Transit	4,928	
2,084,902				**2,250,755**
£4,085,785				**£4,724,114**

Notes

1. Commitments for Capital Expenditure amount to approximately £165,000 – *£236,000.*
2. In 1947–48 the Company undertook to pay the Trustees of the Staff Pension Scheme ten equal annual instalments of £9,850 to provide Past Service Pensions. The Profit for the Year subject to Income Tax is after charging the fourth instalment.

Approved by the Board,

CHARLES G. RENOLD
ROBERT OSLER HERFORD } *Directors.*

THE RENOLD AND COVENTRY CHAIN COMPANY LIMITED

SCHEDULE I

PROPERTIES AND EQUIPMENT

April 2nd, 1950 £	£ *Cumulative Depreciation*	£ *Original Cost*		April 1st, 1951 £ Original Cost	£ Cumulative Depreciation	£
377,567	134,976	512,543	Land and Buildings	534,659	146,761	387,898
790,282	502,629	1,292,911	Plant and Machinery	1,482,561	449,166	1,033,395
321,089	204,589	525,678	Furniture and Equipment	600,230	182,041	418,189
£1,488,938	£842,194	£2,331,132	Total per Balance Sheet	£2,617,450	£777,968	£1,839,482

SCHEDULE II

MOVEMENTS ON CAPITAL AND REVENUE RESERVES

1949–50 £	£			1950–51 £	£
		Capital Reserves			
		Equipment Reserve			
—		Transferred from Re-equipment Reserve, being the enhanced cost included therein in respect of Assets replaced during the year			£35,000
		Re-equipment Reserve			
	128,000	Balance at commencement of year		175,000	
		Excess Cumulative Depreciation at April 2nd, 1950			
	—	Plant and Machinery	£101,909		
	—	Furniture and Equipment	48,303		
				150,212	
	—	Transferred from General Reserves (see Report of Directors, para. 27)		447,788	
	47,000	Transferred from Profit and Loss Account		58,000	
				831,000	
	—	Transferred to Equipment Reserve as above		35,000	
£175,000					£796,000
		Revenue Reserves			
		General Reserves			
	643,393	Balance at commencement of year		783,920	
	527	Realized Profit on disposal of Investments		480	
	140,000	Profit and Loss Appropriation		90,000	
				874,400	
	—	Transferred to Re-equipment Reserve as above	£447,788		
	—	Transferred to Future Taxation – Reserve for Equalization of Taxation	155,000		
				602,788	
£783,920					£271,612

reserve and credited to a new reserve – to be called equipment reserve – which latter would then represent retained profit actually spent in replacing assets at an enhanced cost.

New Rates Adopted

The investigation also showed the extent to which fully depreciated plant and machinery was still in active and efficient operation. As already indicated a lower depreciation rate has been found appropriate, new rates have actually been adopted and cumulative depreciation at April 2nd, 1950, reduced to the amount which it would have been had the new rates of depreciation been applied throughout the life of the assets existing at that date.

The directors further state that they consider it vital to provide for the maintenance of the company's manufacturing potential out of the proceeds of current operations, and that in consequence whatever amount is required at the end of any year to maintain the re-equipment reserve on the above basis should be set aside from each year's profit before stating the amount of profit which is available for appropriation to dividends and general reserves.

After applying the new depreciation rate, it was found that the re-equipment reserve at the end of last year (April 2nd, 1950) should have amounted to £773,000 instead of the figure of £175,000 at which it then appeared. The difference has been made good partly by a transfer from general reserves of £447,788 and the balance of £150,212 is made up of depreciation adjustments at April 2nd, 1950.

From the amount thus created, £35,000 has been transferred to equipment reserve as the estimated amount relating to equipment which has been replaced during the year; and £58,000 has been added to re-equipment reserve as a transfer from profit in accordance with the principle of providing for maintenance of manufacturing potential out of proceeds of current operations.

As a result of these entries, the re-equipment reserve is brought up to £796,000 representing the difference between cumulative depreciation, calculated by applying the new depreciation rate to the estimated current replacement cost of existing equipment and the actual cumulative depreciation thereon.

Equipment reserve, it has been decided, should be classed as a capital reserve, and for the time being and subject to changing conditions in the future, the re-equipment reserve should be likewise classified.

Money Market

With applications at £342,790,000 Treasury bill allotments were on a 53 per cent basis on July 27th. Average rate was 10*s* 2·56*d* per cent. This week's offer is £240 million.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Orthodox Profits

SIR, – I should like an opportunity to reply to your correspondents' letters in your issue of July 21st last re my article 'A case for orthodox profits'. I was glad to see Mr Harry Norris's comments as it was his and Mr F. Sewell Bray's contributions to your journal which first aroused my interest in this subject. I think Mr Norris must agree that I have gone further to meet him than he has to meet me.

The essence of his letter is that in a given matter there cannot be two things both of which are true; to him profits in terms of goods are true and none other. To take an illustration from physics, if you drop a piece of lead and a feather simultaneously the lead will reach the ground first. Repeat the experiment in a vacuum and both arrive together. What is true in the one case is untrue in the other.

I maintain that there is a world of goods and a world of money, and the two must not be mixed. If you choose the world of goods then everything must be calculated in terms of goods, if money, then money.

Mr Norris singles out the equity holder, and gives him the best of both worlds, and I say he cannot do it. It is not a question of truth, for both the orthodox and the replacement methods are true in their respective worlds, it is a question of what is fair, and I claim that I have made my case that orthodox profits alone are fair.

Now Mr J. F. Jupp is of another kidney. He unashamedly admits that the business man, in supporting the replacement method of calculating profit, is out for all he can get, and how I like him for it, but I think that as a profession we must seek what is true and fair.

Mr T. Weatherby, by confining himself to the effect of the new method on future inflation, avoids the main issue, for even if replacement cost accounting proved disinflationary in practice, which I personally doubt, it would still, I submit, remain unfair. On the question of the single venture applied to long-term enterprise my contention is that while government bonds continue to be repaid at their face value the equity holder is not entitled to get more than his money back. Even then he will be better off than the bond-holder whose income meantime does not increase in step with inflation.

In the broadest sense I do not agree that profit depends on conventions, or, in Mr Norris's words, 'is a matter for careful theoretical consideration as a basis for the establishment of reasonably convenient rules'. To my mind, profit is no more in doubt than wages, salaries, rent and interest, being the difference between these and what the business man can get for the goods he possesses as a result of paying out this income to the rest of us. This is orthodox profit in its pure form, and this we should try to achieve, refusing always to serve any cause, to carry out any theory, or mix any ulterior motive with our singleness of purpose.

Yours faithfully,
H. A. BRISCOE.

King's Norton, Birmingham.

SIR, – In the example quoted by Mr Harry Norris in his letter published in your issue of July 21st, I submit that 'Herr A.' did in fact make a profit of 900,000 marks.

The increase in cost of living between the dates on which he bought and sold the ton of something restricted the disposal of the 900,000 marks, but did not alter the monetary profit that he had made.

I think accounting should record the monetary profit, and then give effect to whatever provision the business man thinks advisable, in order to reflect the change in money values.

Yours faithfully,
London, W13. V. H. RICHES.

Income Tax: Resident or Non-Resident?

SIR, – I should be pleased to know the position regarding tax liability in the following case.

An elderly widow left this country in May 1948 with the object of visiting relatives in Australia and New Zealand. It was not her intention to be away for more than a year. It was, however, two years and nine months from the date of leaving this country to the date of her return, as one of her relatives had become ill and eventually died.

Her income consists of interest received gross on war loan and similar stocks, and dividends received subject to deduction of income-tax on shares held in various companies, together with the annual value of her house in this country. For the first eleven months of absence abroad the house had no tenant – it was of course fully furnished, but when she decided to remain abroad a little longer she thought it wise to let furnished on a quarterly basis and did in fact do so. The furnished letting extended over the remainder of her absence abroad, and the extent of the profit from that furnished letting has been agreed with H.M. Inspector of Taxes.

In ordinary circumstances this lady receives a repayment of income-tax, and the particular question I am concerned to settle is whether for any of the years 1948–49, 1949–50, and 1950–51 she is to be deemed as not ordinarily resident, or not resident or domiciled in the United Kingdom. If so, would she be able to claim repayment as in the past, or alternatively, would she be assessable on the income from the war loan etc. which she has received gross?

Yours faithfully,
BRAD.

Speed in Production of Monthly Accounts

SIR, – Further to recent correspondence on this subject, it may be of interest that we produce trading and operating accounts from our system of budgetary control and standard costs in five working days after the close of our period. We use thirteen four-weekly periods closing on Saturday night, and the accounts are completed by the following Friday. We employ 1,400 work-people.

Yours faithfully,
for the company,
F. SIMMONDS,
Secretary and Chief Accountant,
K. & L. STEELFOUNDERS AND ENGINEERS LTD.

Letchworth, Herts.

Purchase Records

SIR, – In regard to Mr Shanks' letter published in your issue of July 21st, I cannot see that there is any danger in entering unpassed invoices in the books of account, providing that it is the duty of a responsible member of the accounting staff to ensure that every cheque drawn is supported by fully checked and certified invoices.

The system is of great advantage where it is necessary to send invoices to offices at a distance for checking purposes; and enables up-to-date financial information always to be available in the books of account.

Yours faithfully,
V. H. RICHES.

London, W13.

TAXATION CASE

A full report of the case summarized in this column will be published, with Notes on the Judgment, in *The Annotated Tax Cases.*

Asia Mill Ltd *v.* Ryan

In the House of Lords

March 12th, 13th and 14th, and June 28th, 1951

(Before Lord PORTER, Lord NORMAND, Lord OAKSEY, Lord REID and Lord RADCLIFFE)

Income-tax – Cost of trading stock – Transaction in cotton – Payment to Cotton Controller – Whether sum part of cost of cotton – Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3 (a).

This case in the Court of Appeal is reported at 28 A.T.C. 317.

Asia Mill Ltd carried on the business of a cotton spinner, and pursuant to arrangements existing between cotton spinners and the Cotton Controller the company paid £55,087 to the Cotton Controller during the accounting period ended January 13th, 1945. It was common ground that this £55,087 was a proper deduction in computing the profit of the company for that period; and it was also common ground that in computing the profit the value of the company's trading stock at January 13th, 1945, should be included at a figure representing its true cost to the company, and that no question of market value arose.

During the material period transactions in raw cotton and cotton yarn were subject to regulations made by the Cotton Controller, from whom alone all raw cotton had to be bought. In August 1942, arrangements were made with the object of simplifying procedure and of securing the dispersal of cotton stocks. Under these arrangements spinners were urged to purchase cotton to the full extent of their storage space, and irrespective of their orders in hand for yarn, and in the event of a rise or fall in the general price level of raw cotton, spinners were to make payments to or receive payments from the Cotton Controller according to whether their positions were 'long' or 'short' at the time of the variation of the general price level.

As from April 17th, 1944, the prices of all types of raw cotton were increased by 4½*d* per pound. At that date the respondent company's position was 'long' to the extent of 2,937,993 lb., and therefore £55,087 7*s* 4*d* became due from the company to the Cotton Controller, and that sum was duly paid by the respondent company.

In the company's accounts for the period ended January 13th, 1945, this sum of £55,087 7*s* 4*d* was included in a debit item 'cotton and charges – £164,197 13*s* 7*d*'.

It was *inter alia* contended on behalf of the company that as the stock of cotton at January 13th, 1945, had been purchased at fixed prices, under contracts in which no provision was made for price adjustments, the cost of the stock had to be ascertained solely by reference to the prices paid for the cotton, and that the £55,087 7*s* 4*d* was calculated by reference to the company's cover position at the relevant time, and was not an addition to the actual cost of the stock of cotton. It was contended by the Inland Revenue that the £55,087 7*s* 4*d* was paid by the company to the Controller in respect of 2,937,993 lb. of cotton actually in stock or on order at April 15th, 1944; that 2,546,518 lb. of cotton remained in stock on January 13th, 1945, in respect of which 4½*d* per pound, in addition to the invoice price, had been paid to the Controller; and that the true cost to the company of the 2,546,518 lb. was the invoice price plus the 4½*d* per pound.

The Special Commissioners decided that the cost to the company of the stock of cotton was the invoice price, and that the £55,087 7*s* 4*d* did not enter into the matter.

Held (reversing the judgments of the King's Bench Division and the Court of Appeal, and restoring the decision of the Special Commissioners), that the £55,087 7*s* 4*d* was not a part of the cost of the stock of cotton to the appellant company.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Results of Examinations held in May 1951

FINAL EXAMINATION

Held on May 29th, 30th and 31st and June 1st, 1951

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, and the 'Walter Knox' Scholarship
Cox, Derek Ernest (J. Fawcett), Grimsby.

Second Certificate of Merit
Ironside, Donald James (A. E. M. Harbottle), Bristol.

Third Certificate of Merit
Sutherland, Bruce Wilson (C. H. Hogg), Nottingham.

Fourth Certificate of Merit, the 'W. B. Peat' Medal and Prize
Sargent, John Eric (R. G. Carter), London.

Fifth Certificate of Merit
Newcomb, Charles Buckle (A. W. S. Tabbernor), London.

Sixth Certificate of Merit, the 'Frederick Whinney' Prize and the 'Plender' Prize for the Advanced Accounting (Part I) paper
Carmichael, Keith Stanley (W. J. Corpe), Bristol.

Sixth Certificate of Merit
Backshell, Thomas Christopher (H. E. Traylen), London.

Full List of Names of Successful Candidates
(in alphabetical order)

Abbott, D. E. (A. J. Goulden), Manchester.
Adamson, C. B. (G. Stalker), Newcastle upon Tyne.
Adlard, C. R. (D. S. Evason), Shrewsbury.
Ainley, M. C. (F. Yarwood), Horley.
Albury, A. J. (H. K. G. Martyn), Truro.
Allam, R. V. (R. F. Mason), London.
Allen, A. W. (W. G. Allen), London.
Alun-Jones, E. T. (A. F. Clarke), Liverpool.
Alweiss, M. (T. B. Blackburn), London.
Amis, A. S. (J. N. T. Cross), Beccles.
Amos, A. W. (E. G. F. Cartwright), Horsham.
Andrews, G. R. (F. Fox), Bradford.
Arliss, K. R. (K. C. Fox), Brighton.
Arnell, R. R. W. (R. McNeil), Hove.
Arnold, J. A. (V. A. Calverley), London.
Ash, R. D. (F. I. Edwards), Birmingham.

*Backshell, T. C. (H. E. Traylen), London.
Barbour, B. W. (W. H. M. Isle), Bradford.
Barratt, G. W. (S. F. Wilson), London.
Barter, G. L. (J. G. Harper), Guildford.
Bartlett, R. P. (R. H. Passmore), Torquay.
Barton, B. D. (Sir H. M. Barton), London.
Bathe, E. J. (formerly with J. P. Tilley deceased), London.
Beacroft, E. A. (A. G. Mellors), Nottingham.
Beaver, D. W. (W. G. Beaver), Southport.
Becker, J. O. (A. A. F. Parker), London.
Bell, G. E. (L. E. Langley), London.
Benison, J. H. (W. F. Curtis), Exeter.
Bernstein, M. W. (L. Grahame), London.
Bettson, E. T. (R. Horton), Derby.
Bingham, T. H. (A. J. Hack), Liverpool.
Binsted, J. W. (F. R. Hews), Worthing.
Birchall, A. H. (A. Greenhalgh), Bolton.
Bird, J. L. (L. W. Bird), London.
Bizley, J. G. (W. A. Hand), London.
Blackstone, H. V. (A. F. Kent), London.
Blatchford, R. B. (J. B. Cruse), Barnstaple.
Bliss, J. C. (L. A. Reddall), London.
Bloss, G. C. (Sir R. E. Yeabsley), London.
Bolton, J. B. (J. C. Burgess), Manchester.
Bolton, J. W. (C. A. Hunter), St. Helens, Lancs.
Bottjer, A. G. (L. C. G. Dauncey), Worcester.
Bowden, B. J. (Henry Newman), London.
Bradley, E. (N. Shaw), Dewsbury.
Bramley, E. J. M. (J. L. Rose), Derby.
Brandon, C. J. C. (F. V. Baxter), Southend-on-Sea.
Bray, J. R. (R. S. Paterson), London.
Brief, M. (S. Brief), London.
Brooks, K. (J. D. Brown), London.
Brown, C. G. (W. R. Middleton), London.
Brown, R. M. (W. S. W. Fone), London.
Browning, D. G. (J. B. Bullivant), Leicester.
Bruce J. (C. Bradshaw), Warrington.
Buckle, J. A. (F. L. Bromfield), London.
Burden, A. J. (W. R. Carter), Manchester.
Burton, R. N. (R. Crozier), Manchester.
Butterfield, J. A. (C. S. Bishop), Leicester.
Butterworth, P. J. (J. B. Butterworth), Bridgwater.
Buxton, H. E. D. (J. M. Howard), London.

Carey-Parker, G. R. (V. R. V. Cooper), London.
*Carmichael, K. S. (W. J. Corpe), Bristol.
Carr, B. H. (S. H. Bersey), London.
Carr, M. D. (R. F. May), London.
Carr, R. C. (C. H. Travis), Manchester.
Cass, J. H. (H. H. de C. Moore), London.
Catchesides, A. W. (C. G. H. Midgley), London.
Catherwood, H. F. R. (formerly with W. Harrison, deceased), London.
Ceha, R. H. (S. W. Smiles), London.
Charlett, A. V. (S. B. McQueen), Liverpool.
Charlton, W. L. (G. D. Weir), Sunderland.
Christie, J. R. (R. Fawcett), London.
Clark, J. P. (D. M. D. Raper), London.
Clarke, G. E. (J. Mayhew-Sanders), London.
Clayden, J. (J. R. Train), Barking.
Clayton, D. (F. H. W. W. Shaw), London.
Clayton, D. E. (G. R. Postlethwaite), Doncaster.
Clayton, J. R. (C. B. Brecknock), Nottingham.
Clee, P. W. (I. G. Miller), Cardiff.
Clegg, J. N. (S. Marsh), St Helens, Lancs.
Clegg, O. H. (W. Parker), Burnley.
Clifford, F. G. (T. Dowell), Carlisle.
Colclough, A. J. (J. A. Bond), Southport.
Cole, K. B. (P. G. Grant), Sleaford.
Collett, N. W. (formerly with C. C. Baker, deceased), London.
Collins, G. E. (C. E. Garratt), Birmingham.
Collins, P. L. R. (J. P. Stephens), London.
Collis, J. N. (H. S. Barker), London.
Colvin, J. A. (F. J. Cook), Liverpool.
Conning, F. H. (E. Richmond), London.
Cooke, B. V. (B. Walker), Great Yarmouth.
Cooke, G. A. (S. Honey), Exeter.
Cooke, R. W. (R. T. Salt), Sutton Coldfield.
Coole, R. N. (G. Weil), London.
Corbett, F. P. (W. P. L. Chappell), Bournemouth.
Cottrell, W. G. E. (A. W. Mills), London.

* See also Certificates of Merit above.

Coulthard, B. E. (J. W. Stirrup), Preston.
Courtney, D. J. (W. E. Price), Bristol.
*Cox, D. E. (J. Fawcett), Grimsby.
Cox, E. D. (W. E. Cox), Birmingham.
Croft, W. A. (W. B. Cullen), London.
Cross, A. G. (W. H. Blaxland), London.
Crossley, W. O. (G. H. Murray), Manchester.
Curry, W. R. (formerly with J. G. Johnson, deceased), Sunderland.
Custis, P. J. (H. A. Astbury), London.

Daly, J. L. E. (H. A. Deeker), London.
Darby, R. H. (W. E. S. Salt), Birmingham.
Darroch, J. B. C. (E. N. Macdonald), Liverpool.
Daukes, T. C. (J. H. Senior), London.
Dauney, R. A. (G. R. Appleyard), London.
Davie, F. G. (S. R. Edwards), Kidderminster.
Davie, J. N. (W. Y. Thomson), London.
Davies, J. W. (E. Louis), London.
Davies, P. J. (R. G. White), Abergavenny.
Dawson, L. F. (J. I. Robertson), London.
Day, J. H. (R. H. Stafford), London.
Deakin, G. R. (A. E. Armitage), Manchester.
Delahunty, P. V. (F. Wilkinson), Manchester.
Delderfield, G. H. W. (E. G. Davis), London.
Denham, W. (J. R. Haygarth), Leeds.
Dickens, A. P. (J. D. Clark), London.
Dinnen, A. D. (P. Fisher), London.
Dixon, A. (A. W. Bentley), London.
Dixon, W. T. D. (J. Godfrey), London.
Donald, I. A. (J. H. Platford), London.
Douglas, R. A. (J. W. Clement), London.
Duffin, A. A. (W. N. Chick), Nottingham.
Dunand (Miss) P. L. (M. D. Booth), Newbury.
Durnin, J. C. (H. E. Clark), London.

Eastwood, N. C. (M. E. Askwith), London.
Eaton, E. J. (B. M. Hall), London.
Edge, A. (W. M. Stone), Manchester.
Edge-Partington, J. P. S. (C. W. Wildy), London.
Edington, F. E. (H. A. Capper), London.
Edwards, D. L. (C. E. V. Salsbury), Bedford.
Edwards, R. A. (R. S. Andrews), London.
Eldridge, C. H. (C. G. E. Pryke), London.
Elgamal, M. M. (N. H. Keen), London.
Espie, D. H. (J. S. Harrison), Leeds.
Evans, B. E. (C. H. March), Cardiff.
Evans, D. L. (E. E. Spicer), London.
Evans, L. T. (J. C. M. Williams), Swansea.
Evenhuis, P. H. (B. Morley-Hall), London.

Farley, D. E. (A. J. Morrison), Birmingham.
Faulkner, J. O. (B. L. Monahan), Swindon.
Fawcett, W. S. (T. J. Harrison), Liverpool.
Feldman, A. (J. Harrison), London.
Fisher, G. E. H. (L. W. Newsholme), Preston.
Fisher, R. A. (A. Hunt), Manchester.
Flatley, M. D. (H. J. Wells), London.
Fletcher, J. B. (W. B. Lindley), Leeds.
Flint, B. J. (B. C. Kirk), Birmingham.
Forsyth, K. N. (J. F. Long), Stockport.
Foskett, R. W. (G. A. Warley), London.
Fowler, N. A. (R. Hindle), London.
Francis, J. H. (L. C. Simpson), Leicester.
Frank, T. R. H. (G. G. P. Goldney), London.
Frisby, E. E. (E. G. Lambard), London.
Fudge, L. A. (E. G. S. Jackson), Bristol.

Gallop, L. J. (S. V. P. Cornwell), Bristol.
Gamble, E. J. (E. J. G. Webb), London. (*'Plender' Prize for the Taxation Paper.*)
Gardener, W. K. (F. K. Gibbs), Uxbridge.
Gasquoine, A. J. (F. C. Griffiths), London.
Gay, M. A. P. (A. M. Hendry), London.
Gibb, I. G. (G. S. Major), Birmingham.
Gibbs, C. G. (B. Palmer), London.
Gilbert, J. E. (S. R. Herrick), Leicester.
Gledhill, K. (F. W. Etchells), Huddersfield.
Godkin, J. R. H. (formerly with H. Godkin, deceased), Loughborough.
Goldsmith, J. A. (R. J. Carter), London.
Goldwyn, L. (A. M. Meades), London.
Goodall, N. J. (H. A. Beeny), Bognor Regis.
Gosden, D. L. H. (C. R. P. Goodwin), Brighton. (*'Plender' Prize for the General Financial Knowledge and Cost Accounting Paper*)
Green, D. F. (W. F. Curtis), Exeter.
Green, P. J. (G. G. Turner), London.
Greer, A. H. C. (J. Bailey), London.
Gregan, G. E. J. (R. A. Hamlyn), London.
Gregory, R. D. (W. P. Grimwood), London.
Grenfell, N. (R. H. MacIntyre), London.
Griffiths, W. (W. T. Horsfall), Liverpool.
Grimmer, J. A. G. (J. R. Groom), Great Yarmouth.
Guest, P. N. (L. K. Taylor), Manchester.
Gunary, B. A. (I. V. Cummings), London.
Guppy, F. J. (M. W. Burrough), Bridport. (*'Plender' Prize for the English Law (Part I) Paper.*)
Guthrie, A. C. (A. E. Armitage), Manchester.

Hack, A. R. (A. J. Hack), Liverpool.
Hadfield, C. (J. N. Haworth), Manchester.
Haigh, H. (A. Thornton), Burnley.
Hailstone, F. N. (E. J. Princep), Basingstoke.
Haines, C. E. (P. H. Darbyshire), Bristol.
Hallen, A. H. (P. G. Broad), London.
Hallwood, A. (J. M. Harvey), Liverpool.
Hancock, R. C. (E. Rawcliffe), Blackpool.
Hargreaves, W. (K. B. Taylor), Manchester.
Harrison, D. (A. Fearnley), Earlestown.
Harrison, R. (F. Williams), Liverpool.
Haslam, E. L. (J. H. Waring), Bolton.
Hawdon, S. (U. R. Gerry), Sunderland.
Hawkins, A. (T. J. Theobald), London.
Haworth, D. R. (J. L. Kitching), Leeds.
Hay, G. A. (G. C. Buckley), Stockport.
Hay, J. N. (H. W. Ballard), London.
Hayling, A. J. (H. S. Dunk), Dartford.
Haywood, J. H. (P. S. Taylor), Birmingham.
Hemming, K. B. (L. F. McCulloch), Grimsby.
Henson, D. (K. Spoor), Newcastle upon Tyne.
Hewett, T. H. (H. J. Lunt), Manchester.
Hewitt, P. A. (R. S. Gordon), Manchester.
Heywood, S. F. B. (E. J. Wright), Manchester.
Hibbs, R. W. (H. Darrell), Croydon.
Hill, G. A. (D. H. Harker), London.
Hill, N. F. (C. E. Kelham), London.
Hilliar, E. J. (formerly with F. J. Sully, deceased), Weston-super-Mare.
Hilton, J. A. (E. F. Kellett), London.
Hodge, G. M. (J. S. Brittain), London.
Hodge, R. A. (W. C. Morgan), Plymouth.
Holbrook, R. C. (H. C. Bound), London.
Holey, B. (J. E. N. Brough), Ripon.
Holland, J. H. (R. E. Gray), Newcastle upon Tyne.
Holland, N. F. (J. D. George), London.
Holloway, M. K. (S. G. Hillyer), London.
Homan, G. E. (C. A. Chapman), London.
Hopkins, G. D. B. (Sir R. Kettle), London.
Hornsby, A. K. (C. S. Living), London.
Hoskin, P. W. (J. P. Burnett), Southampton.
Hoskins, P. J. (A. L. Butcher), London.
Howarth, H. (N. R. Dickinson), Bradford.
Hubbard, C. C. (P. T. Neal), Birmingham.
Hudson, D. E. (C. F. Atkinson), London.
Hughes, C. F. (R. E. Beckett), Walsall.
Hughes, D. L. (D. T. Veale), Leeds.
Hughes, H. V. (S. W. C. Sprunt), London.
Humby, R. H. G. (A. J. Whitington), Winchester.
Hunt, R. J. (G. H. Wagstaff), London.
Hunter, C. J. (T. L. C. Clarke), Plymouth.
Hutchinson, J. F. (W. Rose), Newcastle upon Tyne.
Hyatt, F. (H. E. Jenkinson), Sheffield.

Illingworth, E. H. (H. Crowther), Huddersfield.
*Ironside, D. J. (A. E. M. Harbottle), Bristol.

James, J. C. (E. B. Bate), Bristol.
Jasper, J. D. (J. J. Jasper), Cradley Heath.
Jeffreson, M. (E. B. Langford), Portsmouth.
Jehring, P. J. Y. (E. D. Jehring), London.
Jennings, J. D. (D. E. Whinney), London.
Johnson, G. L. (C. D. Bromhead), Plymouth.
Johnson, K. C. (D. C. Cann), London.
Jones, J. P. (G. G. Owens), Liverpool.
Jones, P. F. (A. I. Tedman), London.
Jones, W. C. (W. B. Tatlow), Llandudno.
Jones, W. H. (G. A. Morgan), Swansea.
Jose, B. G. (C. G. C. Hector), Brighton.

Kalindjian, M. S. (S. F. Lang), London.
Kelly, T. D. G. (H. W. Gray), Oxford.
Kendall, D. E. J. (R. L. Jones), London.

* See also Certificates of Merit above.

Kilsby, D. W. (F. E. Antill), London.
Kinnair, P. L. (J. E. Hilton), Newcastle upon Tyne.
Knight, J. O. (R. W. Cox), Nottingham.

Lamb, J. (C. J. Mason), Birmingham.
Lamble, J. E. (J. R. D. Bushell), Harrow.
Lambourne, R. R. (D. V. House), London.
Land, W. D. (W. A. T. Matheson), London.
Larbey, J. G. F. (B. A. Reynolds), Ashford.
Larkins, B. H. (S. V. Lancaster), Birmingham.
Larwill, B. M. (H. J. Binder), London.
Laslett, G. M. (F. W. Partridge), Reading.
Laws, M. L. (F. E. Whitehead), London.
Lawson, H. L. (R. W. Leigh), London.
Lawton, P. L. (F. H. Bennett), Birmingham.
Laycock, F. R. (R. L. M. Wood), Huddersfield.
Leach, A. E. (W. R. Burrough), London.
Lee, A. G. (P. T. Duxbury), North Shields.
Lees, G. (S. Carr), Huddersfield.
Legge, G. H. (W. H. Lawson), London.
Leonard, B. (G. Emmerson), London.
Leonardi, C. W. J. (R. M. Browne), London.
Lewis, D. S. (D. J. Ginnings), London.
Light, J. R. F. (A. C. Palmer), Bristol.
Light, M. G. W. (L. H. Weatherley), London.
Lister, F. (R. Taylor), Scunthorpe.
Lithgow, D. (M. Perkins), Bristol.
Littlemore, P. E. (R. L. Davies), Northwich.
Littlewood, H. C. (V. C. Bianchi), London.
Littlewood, K. H. (W. R. Jenkinson), Sheffield.
Lloyd, I. L. (F. D. C. Atkinson), Leeds.
Lockhart, G. J. C. (R. E. Ware), Exeter.
Lockley, D. O. (H. Dawson), Chester.
Longworth, J. F. (J. S. Rogers), Llandudno.
Lord, N. H. (R. H. Lord), Manchester.
Lowe, J. A. P. (E. Watkinson), Wigan.
Lucas, H. S. (A. C. Lucas), London.
Lunt, W. T. (J. Bromley), Southampton.
Lynn, P. (G. G. P. Goldney), London.
Lyon, F. G. (C. R. Townend), Goole.

McAndrew, W. L. (R. E. Gray), Newcastle upon Tyne.
McBrien, W. R. (C. B. Fytche). London.
McCombie (Miss), P. M. (S. McCombie), Hitchin.
McConnell, F. H. (W. L. Gallant), Leeds.
McCranor, H. J. (H. J. Redfern), Coventry.
Macdonald, J. D. (A. S. H. Dicker), Norwich.
McHugh, H. L. (H. Wharam), Sheffield.
Mackey, M. R. S. J. (P. Ewen), London.
Macro, N. (E. Wood), Burnley.
Mallett (Miss), V. E. (R. R. Nash), London.
Mann, S. V. (R. B. Leech), Coventry.
Marjoribanks, I. D. (H. E. Sier), London.
Martin, F. W. (R. G. W. Pengelly), Plymouth.
Mason, J. B. (C. H. Smith), Birmingham.
Mason, R. F. W. (H. Cavenagh), Birmingham.
Matthews, J. A. McC. (V. G. P. Brough), Doncaster.
Maurice, C. J. (J. P. Moll), London.
Maxwell, J. E. (R. C. Tripp), London.
Meader, N. F. (D. A. W. Hamilton), Bexhill-on-Sea.
Mellor, A. R. (J. S. Johnson), Liverpool.
Mellor, J. D. H. (J. M. Freeman), Newbury. (*'Plender' Prize for the English Law (Part II) Paper.*)
Mellor, J. P. (A. Cheetham), Manchester.
Meynell, R. W. (W. E. Parker), London.
Miller, J. A. (G. D. West), Liverpool.
Milsom, S. F. (A. F. B. Ham), Bristol.
Mitchley, J. A. (B. W. Antoine), London.
Montague, D. H. (F. G. Peacock), London.
Mooney, J. G. (C. W. Callow), Preston.
Moore, K. A. B. (H. H. Brodie), London.
Moorhead, P. D. (R. C. Gilbert), London.
Morgan, J. R. (J. K. Morgan), London.
Morley, K. J. (H. T. C. Reid), London.
Morphy, G. P. (S. T. Maxwell), Preston.
Morris, E. J. (F. W. Bright), Newport, I. of W.
Mortlock, P. J. (R. R. Elliott), Grays.
Moss, H. S. (E. J. Nicholls), London.
Moss, S. (B. Davis), London.
Moss S. N. (R. H. Nicholson), London.
Moxham, D. G. (F. Sedcole), London.
Murphy, J. D. (W. M. Howell), Merthyr Tydfil.

Nathan, M. R. (G. W. Wilks), London.
Neate, W. A. (P. Joy), Hastings.
Nettleton, J. O. (B. D. Beeston), London.
*Newcomb, C. B. (A. W. S. Tabbernor), London.
Nicholas, P. N. (G. Bostock), London.
Nichols, M. B. (J. Birkett), Bristol.
Niven, W. G. (C. W. Puckett), Torquay.
Nixon, J. (W. W. Routledge), Carlisle.
Norfolk, P. J. (M. E. Smith), London.
Norfolk, S. (C. E. Thurlow), London.
Norris, D. C. (J. H. Norris), Blackburn.
Norris, G. H. (G. W. Firkins), Birmingham.
Norris, J. R. (W. G. Foreman), Haywards Heath.
North, P. A. (F. S. Parsons), Croydon.
Nott, A. J. (D. A. Clarke), London.
Nunn, E. C. (A. V. Sully), London.
Nurden, D. B. (C. McAuley), London.

Oates, S. J. (formerly with A. J. Adams, deceased), London.
Overton, R. H. H. (R. M. N. Burke), London.

Palmer, G. S. (F. L. Houghton), Birmingham.
Palmer, W. G. (formerly with J. H. Bishop, deceased), London.
Parker, J. M. (O. W. Thompson), Birmingham.
Parker, T. O. (L. C. Coe), London.
Parvin, R. G. A. (C. G. Peel), Virginia Water.
Pearse, W. R. G. (S. R. Perratt), Taunton.
Pearson, R. (W. J. Campbell), Hull.
Peart, S. W. (J. S. Tropman), Birmingham.
Peat, G. C. (E. T. Granger), London.
Pegley, L. C. (D. B. Hirshfield), London.
Penketh, R. W. (E. T. Denton), Liverpool.
Perkis, D. A. (H. A. Perkis), Leeds.
Perry, D. A. (W. E. Ridsdale), London.
Peters, K. N. (H. A. Deeker), London.
Phillips, C. W. A. (J. W. de Mestre), Southsea.
Philp, M. H. (W. J. V. Cooper), Blackpool.
Phipkin, H. J. (W. Tooth), Coventry.
Piat, M. J. A. E. (B. W. Graves), London.
Pickworth, S. F. (G. S. Beesly), London.
Pinder, D. W. (A. Popplewell), Manchester.
Polhill, A. N. (J. M. Keith), London.
Price, J. G. (H. J. Monro), London.
Price, W. J. (B. Kidson), Wolverhampton.
Priestley, A. T. (S. V. Bye), Middlesbrough.
Priestley, J. J. (J. F. Flint), Mansfield.
Pritchard, E. G. (R. W. Covington), London.
Prue, N. J. (R. T. Salt), Birmingham.

Ragheb, H. M. (S. A. Fabes), London.
Raitz, G. N. (formerly with L. G. Lane, deceased), London.
Ramsay, F. F. (T. C. Capey), Newcastle upon Tyne.
Rao, W. P. (J. W. O. Wilkinson), London.
Reader, J. G. (L. A. D. Winter), Truro.
Reed, C. L. (C. H. Croft), London.
Reid, J. (H. Murray), Newcastle upon Tyne.
Reynolds, P. A. (W. E. Chapman), London.
Rice, R. W. F. (F. C. Holloway), London.
Richards, D. G. (W. E. Mounsey), London.
Richardson, C. B. (R. M. Chapman), South Shields.
Rickard, R. E. (F. T. Barnes), London.
Rigg, F. J. (A. E. Harris), Bristol.
Riley, E. R. (formerly with S. Blythen, deceased), Nottingham.
Ringwood, G. (B. L. Denton), West Hartlepool.
Roberts, R. A. (G. P. Morgan-Jones), Eastbourne.
Robinson, P. G. (A. D. Fincham), London.
Roe, D. H. O. (J. Eccleshall), Nottingham.
Rogers, S. (R. Legge), Wolverhampton.
Rolph, J. M. (formerly with H. S. Hope, deceased), London.
Rolt, H. E. A. (G. E. Rolt), London.
Rood, G. A. (J. H. Mitchener), Southampton.
Ross, W. R. M. (H. L. Layton), London. (*Auditing Prize and the 'Plender' Prize for the Auditing Paper.*)
Rothburn, A. (B. Myers), Lymm.
Rowe, C. H. (L. J. Bentley), London.
Rowett, G. C. (E. H. Newman), Leeds.
Rumsey, A. E. W. (G. Youatt), London.
Rumsey, R. L. (A. B. Sandal), Wisbech.
Rutter, J. M. (A. F. Ward), Bristol.
Ryley, B. E. (H. Stones), Hinckley.

Sadd, M. J. G. (R. E. Herington), Birmingham.
Samworth, R. J. (R. P. Chambers), London.
Sanderson, J. F. R. (C. T. Brown), Bath.
Sansom, D. (R. F. Clark), London.
*Sargent, J. E. (R. G. Carter), London.
Sarson, M. B. (L. Booth), Witney.
Schofield, J. (M. Crawshaw), Halifax.
Scrimshaw, T. A. (R. C. Scrimshaw), Chesterfield.

* See also Certificates of Merit above.

Senn, S. A. (G. W. Ware), London.
Settle, H. F. (L. N. Winder), Liverpool.
Shear, H. B. (C. W. Bellamy), London.
Shelton, K. E. (H. R. Tebb), Leeds.
Shield, J. W. (J. A. Crisp), Newcastle upon Tyne.
Shirley-Beavan, M. (C. L. Woolveridge), London.
Shoults, J. R. (D. E. Webb), London.
Shulman, H. N. (J. Harrison), London.
Simmons, G. G. (H. G. Daniels), Redhill.
Simpson, E. D. (A. H. Rodwell), Preston.
Sims Williams, G. F. S. (G. E. Sendell), London.
Slack, K. (C. L. Arundale), Macclesfield.
Slade, G. J. (E. H. Wingfield), London.
Slator, M. H. (formerly with F. G. Carter, deceased), London.
Smallbone, M. J. (J. R. Train), Barking.
Smith, A. L. (W. Scott), Manchester.
Smith, B. B. (S. B. Smith), London.
Smith, P. H. (N. B. Hart), Brigg.
Spearing, J. S. (B. G. Marchant), London.
Speight, C. E. (H. F. Richardson), Manchester.
Spofforth, M. G. (G. L. C. Touche), London.
Spruce, E. W. (A. B. Wallis), Newcastle upon Tyne.
Spurway, E. J. (C. J. Vane), Birmingham.
Squires, E. G. (A. E. Whitcomb), Luton.
Staddon, J. F. (P. R. Frere), London.
Stanton, G. (R. Whitehead), London.
Stephani, C. C. (W. B. Paton), London.
Stevens, R. B. (J. J. Baker), London.
Steward, F. (F. V. Hussey), Ipswich.
Stones, W. M. (A. G. J. Horton-Stephens), Brighton.
Stuart, H. J. J. (formerly with R. E. Habben, deceased), London.
Stuttard, D. (H. V. Clayton), Manchester.
Suffell, W. (N. R. Rigby), Manchester.
Sullivan, J. J. (R. C. Johnston), Birkenhead.
Sunderland, J. V. (H. Titterton), Stockport.
*Sutherland, B. W. (C. H. Hogg), Nottingham.
Swindlehurst, J. O. W. (D. N. D. Raper), London.
Symons, E. J. (L. H. Davies), London.

Taffs, A. J. (A. C. Unthank), London.
Taylor, A. G. (G. Waterworth), Blackburn. (*'Roger N. Carter' Prize.*)
Taylor, D. B. (F. A. Bardsley), Manchester.
Taylor, G. L. (F. W. Etchells), Huddersfield.
Taylor, M. D. (N. Johnson), Chester.
Taylor, W. W. (P. H. Stone), Birmingham.
Telfer, S. W. (A. R. Glenton), Newcastle upon Tyne.
Thomas, A. B. (R. D. Lea), Leicester.
Thompson, M. W. (R. H. Pannell), London.
Thomson, W. N. (H. C. Hepworth), Manchester.
Tomlinson, N. E. (J. R. Powell), London.
Tonkinson, D. H. (A. Jolly), Hove.
Touche, A. G. (D. M. Touche), London.
Townend, C. R. B. (B. W. Graves), London.
Townley, E. S. (M. S. Josephs), London.
Townsend, D. V. (H. W. Elliott), London.
Trevers, F. J. (J. A. Basden), London.
Tripp, A. C. (J. L. Wannan), London. (*'Plender' Prize for the Advanced Accounting (Part II) Paper.*)
Tuck, E. S. (B. F. Hallett), London.
Tucker, R. B. S. (J. E. Talbot), London.
Turner, G. L. (J. G. Harper), Guildford.

Unsworth, K. (J. F. Holroyd), Liverpool.

Veale, J. H. (E. N. T. Clowes), Ipswich.
Viersen, J. A. (G. W. Coleman), London.

Wales, K. C. (M. J. F. Willcox), Scarborough.
Walkden, C. (J. G. Holcroft), Bacup.
Walker, D. (R. L. Crowther), Huddersfield.
Walker, J. D. P. (R. S. Weir), Liverpool.
Walker, R. G. W. (S. G. Hillyer), London.
Walker, V. A. (J. S. Hanson), Dewsbury.
Walker, W. D. (C. Pollard), Boreham Wood.
Walters, F. (R. S. Davis), Manchester.
Walton, P. (F. M. Kellett), Newcastle upon Tyne.
Warburg, G. A. S. (G. H. Carbutt), London.
Ward, B. D. (F. J. Smith), London.
Ward, J. (E. L. Hope), Accrington.
Ward, W. R. (R. E. Collins), Cardiff.
Warren, G. A. (A. E. Scrutton), Ipswich.
Watts, D. (W. J. Gilbert), St Albans.
Weavers, F. P. (E. P. Q. Carter), Birmingham.
Webb, L. A. (A. Parker), London.
Webber, J. J. (H. F. Shapland), Minehead.
Webster, H. J. (L. A. Baddeley), London.
Wells, A. G. (R. J. Weeks), London.
Wells, M. H. W. (H. J. Sanders), London.
Wesson, C. R. C. (W. F. Whiting), Wisbech.
Westwood, P. C. (F. N. Griffith), Kendal.
Wevell, W. B. (P. R. Johns), Bridgwater.
Whitby, D. V. (W. H. Gillings), Southend-on-Sea.
Whittaker, T. R. R. (F. E. Hawkes), Luton.
Wicks, M. W. (H. D. Leete), Manchester.
Wight, G. G. (J. E. Allen), London.
Wild, K. F. (G. C. Henry), London.
Wildy, M. C. W. (F. A. Lord), London.
Willey, G. J. (A. E. Whitcomb), Luton.
Williams, A. (C. G. Jolliffe), Newport, Mon.
Williams, F. J. S. (H. S. Ortmans), London.
Willis, G. R. d'A. (G. D. F. Dillon), London.
Wilson, A. B. (R. W. Gorman), London.
Wilson, J. H. L. (W. E. Parker), London.
Wilson, M. D. (L. Wilson), Halifax.
Wilson, R. J. M. (W. H. Leather), London.
Wilson, W. S. (T. A. Furse), Birmingham.
Wiltshire, G. O. (S. R. Hogg), London.
Winstanley, H. K. (L. A. Pardey), Wigan.
Wood, P. B. (E. York), London.
Woods, W. J. (F. R. Tillett), London.
Woodthorpe, J. D. (F. T. Wright), London.
Woodyer, A. R. (S. Woodyer), Liverpool.
Wright, M. O. (G. P. Stevens), London.
Wright, N. G. (J. Benson), Newcastle upon Tyne.
Wright, S. (F. W. Knowles), Cleveleys.

Yates, G. J. (E. J. H. Hart), Bristol.
Yeandle, H. S. (L. V. Slater), Cambridge.

* See also Certificates of Merit above.

528 Candidates passed. ***605 Candidates failed.***

INTERMEDIATE EXAMINATION

Held on May 22nd, 23rd, and 24th, 1951

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the 'Frederick Whinney' Prize and the 'Plender' Prize for the Book-keeping and Accounts (Executorship) paper
Holt, Cecil Digby (J. F. Venner), London.

Second Certificate of Merit, the 'Stephens' Prize and the 'Plender' Prize for the General Commercial Knowledge paper
Tansley, Thomas Anthony (J. B. Pinnock), Bedford.

Third Certificate of Merit, the 'Plender' Prize for the Book-keeping and Accounts (Limited Companies) paper
Chancellor, Russell Edwin (T. B. Robson), London.

Fourth Certificate of Merit
Webster, Thomas Alfred John (G. T. E. Chamberlain), Leicester.

Fifth Certificate of Merit, the 'Plender' Prize for the Auditing paper
Ferris, Ian Samuel Spencer (L. J. Osmond), London.

Sixth Certificate of Merit
Aungiers, Brian Piers (K. C. Foster), London.

Full List of Names of Successful Candidates
(in alphabetical order)

Amery, H. J. (H. S. Critchley), Oxford.
Amy, G. C. (L. J. Bussey), London.
Andrews, C. S. (T. G. Dobson), Halifax.
Andrews, J. R. (E. R. Hill), Nottingham.
Appleyard, W. L. (J. H. Alexander), Leeds.
Armstrong, R. H. (J. Wilson), Middlesbrough.
Artus, T. N. (C. W. Payne), Stroud.
*Aungiers, B. P. (K. C. Foster), London.
Austin, M. H. (L. B. Prince), London.

Baber, W. M. (G. F. Pykett), London.
Bacon, F. J. R. (G. S. Thorpe), Liverpool.
Bailey, P. E. (N. B. Wallis), Nottingham.
Baines, P. J. A. (B. P. H. Preston), London.
Baker, J. D. (H. M. Pepper), Walsall.
Baker, S. (I. L. Haffner), Manchester.
Bamford, A. F. (T. M. Till), London.
Bancroft, M. E. (L. King), Liverpool.
Banerjee, A. (A. T. Tull), London.
Bannister, S. A. G. (F. F. Leach), London.
Bardrick, D. J. W. (E. G. White), London.
Barlow, D. L. (J. Barlow), Bolton.
Barnby, I. E. G. (H. F. Davis), London.
Barrell, R. A. (E. W. Dowdy), London.
Barrie, J. M. (E. J. H. Clarke), London.
Barrow (Miss), E. D. (R. L. Wyllie), Whitehaven.
Bartlett, A. R. (E. P. Thornhill), Bristol.
Barton, N. (H. Peat), London.
Bassett, R. C. (N. G. Webber), Exeter.
Baybut, L. J. (H. Goodier), London.
Beldham, J. B. (J. K. Dick), London.
Benham, J. M. (J. R. Powell), London.
Bennett, R. C. (R. M. Bennett), Bristol.
Berger, M. S. (A. G. B. Gunn), London.
Berry, A. E. J. (A. B. Plevey), Wolverhampton.
Beveridge, A. A. (E. C. Howie), Newcastle upon Tyne.
Bevins, E. R. (W. T. Horsfall), Liverpool.
Bird, M. C. (D. A. Owen), Leamington Spa.
Bishopp, E. (R. E. Herington), Birmingham.
Bispham, G. (J. B. Brierley), Oldham.
Black, J. R. C. (R. Horton), Derby.
Blackburn, K. A. (A. Pennington), London.
Blackton, J. R. (R. B. Owen), Derby.
Bloor, J. C. A. R. (A. E. Burton), London.
Boam, A. W. (A. W. Dalling), Brighton.
Boland, M. (D. A. Armitage), Leeds.
Bones, K. A. (E. F. Kellett), London.
Boothman, D. A. (E. G. Clegg), Manchester.
Brand, J. D. (R. E. Goate), Canterbury.
Brand, R. W. (A. E. Bayliss), London.
Bressloff, S. J. (E. Bostock), London.
Brierley, H. (F. C. Hoyle), Manchester.
Briggs, J. F. (F. Wall), Liverpool.
Bristow, R. A. (J. S. Armstrong), Newcastle upon Tyne.
Bromfield, T. H. (F. L. Bromfield), London.
Brooke, J. L. (E. R. H. Scott), London.
Brown, C. M. (W. H. Newton), Birmingham.
Brown, I. C. (D. G. Tate), London.
Bryant, A. (C. R. Atkinson), London.
Buchanan, J. H. (P. C. Lloyd), Liverpool.
Bull, N. A. J. (C. N. Blackburn), London.
Bunce, F. J. (J. Codling), Beaconsfield.
Bunker, G. B. (R. S. Longcroft), London.
Burchett, K. S. (M. L. Grant), London.
Burns, G. A. (J. Larkin), Liverpool.
Burr, G. W. (H. W. V. Pullan), London.
Burt, M. G. (A. E. Scrutton), Ipswich.
Butterick, A. F. (A. Hartley), London.
Butters, D. H. (J. S. Braime), Leeds.
Buzza, I. A. M. (S. M. Kirkman), Ripon.

Calnan, B. E. (D. Bruce), London.
Carpenter, R. P. (P. P. Richards), Bristol.
Carrick, G. M. (J. R. Herbertson), Newcastle upon Tyne.
Cass, A. (F. Somers), London.
Catley, L. P. S. (N. Brett), London.
Cazalet, R. P. St G. (J. F. T. Nangle), London.
Chalkowski, F. (H. Brandes), London.
*Chancellor, R. E. (T. B. Robson), London.
Chapman, E. (W. Earl), Blackpool.
Chappell, R. C. (G. H. Black), Skegness.
Chetham, W. H. (F. S. Burman), Manchester.
Chettleburgh, E. N. (R. W. Jarvis), Leicester.
Chilcott, E. H. (H. C. Medlam), London.
Churchill, R. J. (J. H. Pigg), Sunderland.
Churchley, J. E. (O. G. Sunderland), London.
Civval, N. M. (L. Parker), London.
Clark, B. J. (J. R. Paramour), London.
Clarke, G. R. (E. Lucas), Bedford.
Clay, B. L. (J. W. Williams), London.
Clegg, D. T. D. (M. C. Cole), London.
Clinton, A. G. (S. G. Sillem), London.
Clisset, J. (S. Ellis), Manchester.
Coey, J. E. C. (B. W. Waters), London.
Colin-Thomè, H. (P. F. Carpenter), London.
Colley, J. E. (H. C. E. Miller), London.
Collis, D. J. (E. W. Evans), Coventry.
Condlyffe, J. D. (J. W. F. Richardson), Stourbridge.
Cook, J. D. (H. R. Stacey), London.
Cooke, A. K. (D. C. Smith), Burnley.
Cooke, D. G. (B. F. Newill), Leicester.
Cooke, R. G. G. (E. P. Thornhill), Bristol.
Coombs, B. W. J. (C. G. Ellison), Weston-super-Mare.
Cooper, G. (M. Brookes), Oldbury.
Cooper, G. C. (G. Stoughton-Harris), London.
Cooper-Parry, R. G. (K. C. Makinson), Derby.
Coren, A. (E. H. Ascher), London.
Corkish, W. D. (D. K. Gourlay), Liverpool.
Corney, D. C. M. (W. J. Atkins), London.
Corringham, A. F. M. (W. O. Smedley), London.
Courtiour, J. B. (H. E. Cooper), Bristol.
Crawford, S. D. (I. M. Morris), Manchester.
Crook, M. H. (J. D. George), London.
Cryer, F. M. (L. W. Newsholme), Preston.
Cullen, P. (F. G. Feather), London.
Curties, I. H. (J. M. Watson), Bournemouth.
Cutting, D. R. (R. E. Osborne), London.

Dain, J. J. (C. G. May), London.
Dale, K. T. (E. R. Bosley), Birmingham.
Datson (Miss), A. W. (F. J. H. Jones), London.
Davey, J. F. (W. Vale), Barrow-in-Furness.
Davidson, D. L. H. (E. D. Basden), London.
Davies, W. I. (R. N. Jones), Aberystwyth.
Deacon, M. M. (A. E. Limehouse), Rugby.
Dearne, H. I. (J. H. Lundy), Sunderland.
Denman, D. C. (R. R. Dewing), Norwich.
Dible, D. R. (T. S. Fletcher), Salisbury.
Diston, D. G. (W. Saxelby), London.
Dixon, J. E. (V. A. Calverley), London.
Dixon, M. R. (W. R. Graves), Cardiff.
Doncaster, P. J. (J. Baldock), Grantham.
Donert, J. B. (N. Spiro), London.
Douie, F. A. J. W. (C. U. Peat), London.
Downs, J. W. (T. R. Cubitt), London.
Draper, M. W. (M. R. Cobbett), Portsmouth.
Dutton, G. P. (G. Stoughton-Harris), London.
Dyson, M. F. (S. Hirst), Huddersfield.

Easdale, H. T. (N. B. Nutt), London.
Edwards (Miss), A. E. (G. C. Toulmin), Brighton.
Eiloart, I. R. (E. G. Tilley), London.
Eldred, C. E. (F. C. D. Swann), Cambridge.
Elgazzar, M. M. E. (P. J. Scrivens), Birmingham.
Elliott, A. G. (E. F. W. Batts), London.
Elliott, D. M. (A. S. Donald), Bournemouth.
Ellis, F. W. (F. A. Stewart), Chesterfield.
Ellis, J. R. (F. H. Parrott), London.
Evans, D. J. (T. Whittam), Colne.
Evans, G. H. D. (F. W. Tarr), Bridgwater.
Evans, J. T. L. (F. W. Farnsworth), Derby.
Everard, G. G. E. (D. H. Cantrell), London.
Eves, D. F. (E. G. J. W. Kent), Colchester.

Farrow, F. A. (A. E. Cook), London.
Fenton, G. C. (H. G. Walton), London.
*Ferris, I. S. S. (L. J. Osmond), London.
Fish, T. H. (J. M. Williamson), Ashton-under-Lyne.
Fisher, C. (A. L. Westbury), London.
Fitton, G. R. (T. E. Milligan), Manchester.
Foord, D. F. R. (L. H. Stewart), Manchester.
Forbes, J. C. (K. M. Moss), Bradford.
Forster (Miss), J. D. (E. Watts), London.
Francis, A. W. (A. T. Payne), Smethwick.
Franks, A. (L. Moore), London.
Freedman, B. I. (J. R. Kilpatrick), Cardiff.

* See also Certificates of Merit above.

Frier, B. R. (C. C. L. Randall), London.
Fritz, R. M. (R. W. West), London.
Frost, H. C. (A. A. Bradshaw), Cranleigh.

Gamble, A. L. (H. N. Murray), London.
Garwood, J. W. (C. D. Walker-Arnott), London.
Gaston, J. H. (P. Morgan-Jones), Brighton.
Gee, M. I. (S. K. Tubbs), London.
Gee, S. (I. G. de Mesquita), London.
Gent, G. E. (H. J. Jones), London.
Glass, K. M. (J. H. Morton), London.
Goide, D. I. (M. E. Smith), London.
Golding, A. J. (S. I. White), London.
Goodliffe, R. G. (E. S. Thorn), London.
Gothard, J. P. C. (G. G. Lee), Liverpool.
Gough, M. C. (A. H. Bonn), London.
Grant, E. J. (T. W. Selbey), London.
Graves, J. L. (H. J. Hoby), Rochester.
Gray, N. (T. B. Read), North Shields.
Gray, R. W. (E. Hope), Liverpool.
Gray-Williams, W. (E. C. Sage), Rhyl.
Greasley, J. E. (C. W. H. Jackson), Nottingham.
Green, M. (L. M. Kershaw), London.
Greene, H. M. (R. Kay), Manchester.
Greenway, D. I. (B. G. Davison), Leamington Spa.
Greenwood, D. L. (C. R. Goulder), London.
Gristwood, B. M. (B. Dudley), Newcastle upon Tyne.
Gruber, H. (G. Classick), Manchester.

Haddleton, S. J. (A. J. Anderson), Birmingham.
Hall, B. C. (W. B. Douthwaite), Sheffield.
Hallett, R. G. (L. A. D. Giles), Crawley.
Hamill, G. (M. J. H. Morton), Grimsby.
Hamilton, D. McL. (R. Carew), London.
Handy, K. F. (R. Philp), London.
Hannam, P. (R. Russam), Bradford.
Hannan, M. J. (R. P. Matthews), London.
Harris, C. M. (K. V. C. Ridley), London.
Harris, R. A. (W. G. C. Oliver), Burton-on-Trent.
Harrison, J. G. (W. G. A. B. Gardner), Stafford.
Hartley, W. C. F. (E. Sproat), Halifax.
Hayim, D. A. (C. M. Duncan), London.
Heitman, M. F. (D. Winter), London.
Henderson, J. A. (W. B. Paton), London.
Henderson, J. R. (Gilbert P. Norton), Huddersfield.
Henley, D. G. (A. E. H. Benard), London.
Henry, H. R. (C. F. Middleton), London.
Henry, P. (H. A. Nock), Dudley.
Heron (Miss), D. E. (J. F. W. Robinson), Workington.
Herring (Miss), J. (D. E. Brewster), London.
Herschell, The Lord (S. H. Bersey), London.
Hetherington, M. (E. T. Martin), Newcastle upon Tyne.
Hewett, S. (R. W. Foster), Chesterfield.
Hewins, R. (A. S. Hill), Coventry.
Hills, B. W. (K. C. Pearce), London.
Hiscocks, W. B. (F. Hiscocks), Liverpool.
Holden, R. B. (J. E. Sagar), Blackburn.
Holdsworth, E. (E. S. Bedell), Manchester.
*Holt, C. D. (J. F. Venner), London.
Holt, P. L. (C. B. B. Flint), Birmingham.
Hope, K. (G. M. Sherwood), Birmingham.
Horne, D. J. (R. H. Collett), London.
Horstead, I. M. (H. E. Horstead), Potters Bar.
Horton, C. F. (W. T. Hunter), Maidstone. (*'Plender' Prize for Book-keeping and Accounts (Partnership) Paper.*)
Hoskins, G. M. (A. C. Bright), Richmond.
Hosp, P. R. (E. N. Read), London.
Hough, J. (H. Daniels), Bolton.
Howard, A. D. (R. R. Coomber), London.
Howarth, G. G. (S. Woodyer), Liverpool.
Howarth, R. (L. J. Hulme), Manchester.
Huddleston, A. W. (J. W. Boothman), Blackburn.
Hufford, H. G. (F. G. Peacock), London.
Hughes, D. S. (F. C. Young), Sheffield.
Hughes, G. B. C. (C. J. G. Hughes), London.
Hull, S. N. (S. D. Hull), Stockport.
Humphreys, A. C. J. (L. M. G. Harris), London.
Humphreys, M. L. (L. J. W. Gould), London.
Humphries, J. W. (F. G. Mellersh), London.
Hunt (Miss), G. (L. M. Biggs), Guildford.
Hunt, J. B. (W. W. Grace), Bristol.
Hunter, A. (J. Larkin), Liverpool.
Huntington-Whiteley, H. B. (W. L. Barrows), Birmingham.
Hutchings, N. F. (B. Franklin), London.

Ingham, G. (A. L. Gibson), Bradford.
Irvine, A. J. G. (J. S. Brittain), London.
Isenblatt, S. C. (J. H. Schotness), London.
Isherwood, M. S. (P. Martin), Bolton.

Jackson, A. G. (A. J. Bloch), London.
Jackson, A. S. (A. Eglin), Manchester.
Jackson, A. W. (G. E. Greenfield), Hull.
Jackson, I. McK. (H. C. Hepworth), Manchester.
Jacobs, H. (T. G. Threlford), London.
James, G. A. B. (C. H. Young), Bristol.
Jarred, R. W. (J. C. Sheldrake), Chelmsford.
Jennings, D. J. (F. Winn), London.
John, A. (H. R. Elliott), Worthing.
Johnson, B. (Sir W. H. Peat), London.
Johnson, D. R. (F. C. S. London), London.
Johnson, E. S. (A. Middleton), Newcastle upon Tyne.
Johnson, M. (formerly with G. E. Titley), London.
Johnstone, I. K. (J. Harvey), Liverpool.
Johnstone, S. L. (N. Spiro), London.
Jones, A. J. (W. A. Clubb), Carmarthen.
Jones, B. A. (E. J. Newman), Birmingham.
Jones, G. A. (A. C. Lucas), London.
Jones, H. (F. A. Adams), Cardiff.
Jones, H. J. F. (C. J. Barlow), Liverpool.
Jones, K. R. (L. O. Ross), London.
Jones, K. W. (E. H. Orford), London.
Jones, R. B. (A. J. Kirman), Grimsby.
Jordan, W. B. (F. E. Antill), London.
Joss, A. G. (L. McGillivray), London.
Judd, T. E. (R. D. Erewis), London.

Keays, D. L. F. (V. C. Manolescue), Hounslow.
Keogh, D. B. J. (F. R. Kelsey), London.
Kermode, N. W. (R. A. Latimer), Liverpool.
Kershaw, L. M. (S. R. Hogg), London.
Kinnear, K. F. (P. Cozens), Walsall.
Kirkland, G. S. (H. Cook), Wolverhampton.
Koch, E. M. (M. J. Goldburgh), London.

Lancaster, N. B. (W. C. Kyle), Carlisle.
Langford, N. (J. Harvey), Liverpool.
Lebbell, D. (R. W. Metcalf), London.
Ledbury, G. H. (F. L. K. Crowe), Weston-super-Mare.
Lee, D. R. (K. C. Makinson), Burton-on-Trent.
Lee, H. S. (W. G. Frazer), London.
Lee, M. G. (C. H. Ansell), London.
Leece, G. R. (B. M. Hanmer), Liverpool.
Lewis, D. I. H. (H. B. Phillips), Abergavenny.
Lillywhite, G. A. (H. R. C. Lillywhite), London.
Lindsay, I. C. (R. Bibby), Manchester.
Lineham (Miss), P. R. (J. C. Hardy), London.
Linfoot, G. A. (W. A. Head), Bradford.
Lister, V. C. M. (O. S. Francis), Reading.
Locking, M. A. (E. K. Locking), Hull.
Lord, J. W. (J. F. Hudson), London.
Lunt, J. A. (A. Cheetham), Manchester.
Lusk, B. H. (J. B. P. Williamson), London.

Machin, J. J. (L. M. Hall), Manchester.
Macksey, F. C. (E. J. Grande), London.
Malin, G. W. (D. Sladden), London.
Mann, A. L. (E. L. Becker), Southport. (*'Plender' Prize for the Taxation and Cost Accounting Paper.*)
Manners, J. G. W. (G. Adam), Newcastle upon Tyne.
Marchbank, K. (C. J. Brewster), London.
Marks, G. (E. B. Collier), London.
Marks, L. (A. C. H. King), London.
Masters, A. E. H. (G. P. Clarke), London.
Mather, D. R. A. (J. L. Mawhood), London.
Mead, P. G. (A. C. Brading), Newbury.
Meade, P. (K. R. Colman), London.
Meek, R. J. (R. M. Grainger), London.
Mehta, J. M. (D. F. Middlemiss), London.
Meinl, J. J. (C. Young), Cambridge.
Mellors, E. (B. H. Brewill), Nottingham.
Mepham, M. J. (P. S. Potter), Newport, Mon.
Mesher, H. C. (P. Ewen), London.
Miller, I. A. (V. M. Burton), Bedford.
Miller, R. G. (H. Hockaday), Liverpool.
Miller, W. D. R. (H. Ogle), London.
Mills, K. G. (D. F. Jewers), Plymouth.
Mills-Roberts, W. L. (J. A. Ross), Liverpool.
Miskin, G. R. A. (G. D. F. Dillon), London.
Moody, D. (J. S. Harrower), Manchester.
Moore, W. R. (R. L. Wyllie), Whitehaven.
Morgan (Mrs.) A. M. E. (E. E. Davies), Cardiff.

* See also Certificates of Merit above.

Morgan, K. B. (C. J. Stobbs), Wellington, Salop.
Moss, C. M. (G. G. Turner), London.
Murray, A. E. (E. Caldwell), London.
Myers, A. M. (J. C. Pyne), London.
Myers, M. (P. Messik), London.

Neal, C. P. (H. Holt), Manchester.
Neville, G. R. (W. E. Burnley), Yeovil.
Nugent, R. H. (F. B. Murray), Birmingham.

Obolensky, M. S. (W. E. Fitzhugh), London.
Overton, R. D. R. (E. Rawcliffe), Blackpool.

Padgett, J. R. (A. E. Bayliss), London.
Page, F. A. (R. H. Parsons), Eastbourne.
Palumbo, R. (L. H. Salter), London.
Parker, L. (E. J. N. Nabarro), London.
Parker-Smith, W. I. (L. N. Winder), Liverpool.
Parkes, K. R. (H. Tuckey), Birmingham.
Parry, P. R. (F. L. Parry), London.
Perkins, J. B. (T. Ashton), Nottingham.
Perrott, J. A. (G. R. Lowe), London.
Petherick, I. S. (J. Hannaford), London.
Phillips, J. R. (C. Bates), Cardiff.
Pickles, C. (C. Stansfield), Hebden Bridge.
Pickles, G. A. (W. E. R. Short), Liverpool.
Pinder, J. M. (C. Pollard), Boreham Wood.
Pinkney, A. (G. L. Aspell), Leicester.
Pippard, D. E. (S. E. Worley), Eastbourne.
Pittock, F. (G. J. W. Bean), London.
Pole, L. H. (W. J. Morton), Leicester.
Pollard, R. (W. Parker), Burnley.
Pollinger, G. E. (K. W. Latter), Bristol.
Posner, J. L. (E. H. Ascher), London.
Pote, A. E. (J. Collins), Leicester.
Potter, D. J. (L. L. Moore), London.
Powell, L. E. P. (L. C. Winterton), London.
Prashker, S. L. (H. Lubbock), London.
Price, A. A. (L. T. Eyles), London.
Prince, M. E. (D. C. Cann), London.
Prophet, B. R. (D. Smith), London.
Prosser, G. (A. E. Shaw), Norwich.
Protheroe, D. J. G. (E. G. S. Jackson), Bristol.
Pullen, E. J. (H. R. Mole), Taunton.
Pyne-Gilbert, D. J. (H. W. Norman), London.

Radstone, J. (W. L. Heather), London.
Raine, G. S. (G. M. Holroyde), Bradford.
Ratnage, T. L. (A. C. Judd), London.
Reading, D. C. (R. Adams), Bognor Regis.
Rebello, D. V. (F. N. Gammidge), London.
Redfern W. (H. B. Britcliffe), Accrington.
Reed, G. W. (A. W. Goodfellow), London.
Reeve, H. (A. B. Harwood), Nottingham.
Reilly, E. J. (T. Thornton), Burnley.
Richards, K. (J. R. Riddell), Shrewsbury.
Richards, T. R. (W. Holland), London.
Richardson, A. D. (D. C. S. Downs), Hull.
Richardson, A. F. (C. B. Cawthorne), London.
Richardson, P. E. (G. J. Shedden), Wolverhampton.
Riley, C. G. (E. J. Stone), London.
Roberts, D. H. V. (C. B. Richmond), Manchester.
Roberts, M. A. (N. T. O'Reilly), Carlisle.
Roberts, P. (H. Dakin), Sheffield.
Robinson, A. (A. E. Campbell), Manchester.
Robinson, E. (R. Russam), Bradford.
Robson, N. S. (W. S. Heslop), Newcastle upon Tyne.
Roche, C. G. (T. H. Nicholson), London.
Rogers, A. J. (A. R. Avens), Portsmouth.
Ronson, D. (F. J. Nash), Preston.
Royston, P. R. (N. W. Peeling), Manchester.
Russam, J. M. (J. W. Vine), Leeds.
Russell, S. R. (H. M. Passer), London.

Sadler, D. G. (R. R. Bailey), Liverpool.
Sampson, R. T. (H. W. May), Chelmsford.
Sapsford, G. B. (O. J. Lowe), Leigh, Lancs.
Sarsfield, D. M. (L. W. Farrow), London.
Schofield, J. T. (T. L. Sutton), Durham.
Scott, D. C. (W. Chaloner), Manchester.
Scott, R. L. (F. H. Richardson), Derby.
Scott, R. L. (T. A. Lobley), London.
Scrine, J. H. (W. Wallace), Brighton.
Seed, D. L. (W. St L. Palmour), Preston.
Sergeant, P. (E. A. Radford), Woking.
Shalet, G. J. (S. Kriteman), London.
Shaw, A. E. (F. G. Nicholas), Hanley.
Shaw, D. L. (S. J. Pears), London.
Shaw G. J. (P. T. Duxbury), North Shields.
Sheldon, R. S. (E. R. Norman), London.
Shiers, K. V. F. (C. H. Clemetson), London.
Shuttleworth, A. (I. H. Sharpe), Ilkley.
Sidebottom, A. K. (J. S. Darwell), Blackpool.
Simons, S. (P. R. Hart), London.
Simpson, D. (L. Moore), London.
Simpson, F. D. (J. W. Pickles), Selby.
Skinner, W. J. (A. S. Donald), Bournemouth.
Slade, D. E. (E. W. Watts), London.
Slade, J. R. (L. J. Osmond), London.
Smith, A. G. (V. C. Burston), Bridgwater.
Smith, D. L. (G. C. Sagar), Leeds.
Smith, D. M. T. (H. Evans), London.
Smith, J. A. L. (D. R. B. Smith), London.
Smith, J. W. (E. J. Princep), Newbury.
Smith, P. H. R. (C. E. Peers), London.
Smith, R. C. (L. J. Reddall), London.
Smith, R. T. (L. Rank), York.
Smullen (Miss), M. (V. C. Baker), London.
Sober, P. (V. Harris), London.
Spencer, M. G. H. (D. S. Osborne), Birmingham.
Spinks, G. L. C. (B. C. Dixie), London.
Spurway, P. F. (C. J. Vane), Birmingham.
Staddon, J. N. (A. C. Shay), London.
Staines, I. M. P. (J. Formstone), Chester.
Stead, J. G. (N. Townend), Goole.
Stephens, P. B. (H. H. Blackburn), Bradford.
Stevens, J. F. (G. E. Richards), London.
Stewart, I. R. (D. G. Sole), London.
Stockman, G. P. (R. G. Sutton), London.
Straus, A. (F. H. Gollop), London.
Stringfield, S. A. (F. A. Pitt), Manchester.
Stuart, J. M. (J. R. Haygarth), Leeds.
Sturgis, S. R. O. (H. E. Traylen), London.
Swallow, B. (T. R. Swallow), Oldham.

*Tansley, T. A. (J. B. Pinnock), Bedford.
Taylor, K. (F. W. Lindgren), London.
Taylor, K. F. (A. E. C. Hartnell), London.
Tebbet, N. (A. G. Bedingfield), Sheffield.
Temple, W. (W. Paton), Carlisle.
Tennant, P. A. (E. N. C. Hewens), London.
Thomas, R. (H. T. Hughes), Llandudno.
Thomasson, J. D. (L. W. Crowther), Bolton.
Threlfall, T. R. B. (F. K. Murfitt), Nelson.
Thubron, B. (A. C. Dixon), Sunderland.
Timmis, M. J. G. (E. R. Cowin), Wolverhampton.
Titmuss, J. Y. (H. G. W. Gibson), London.
Todd, N. A. E. (O. H. Carter), Norwich.
Tomley, M. J. (J. F. Long), Stockport.
Tovey, J. R. (R. E. Reynolds), London.
Towers, B. C. (K. J. d'A. Mason), Birmingham.
Triggs, R. J. (H. W. Sydenham), London.
Trott, A. H. (V. L. Norris), London.
Tuckey, H. W. (E. G. Davies, Birmingham.
Tudball, I. G. (E. H. Price), London.
Tyrrell, A. H. (R. C. Blows), Cambridge.

Varty, E. (J. P. Mountjoy), Cardiff.
Verity, L. (D. Steele), Bradford.

Wailing, W. B. (G. G. Goode), Birmingham.
Waite, R. D. J. (R. S. Barnitt), York.
Walker, B. A. A. (T. R. Keens), London.
Walton (Miss), W. M. (L. C. Mayer-Nixson), London.
Ward, A. G. (E. Moss), Accrington.
Warren, F. (T. Walsh), Blackpool.
Wates, E. R. (C. B. Lea), London.
Watts-Morgan, J. R. (J. Birkett), Bristol.
*Webster, T. A. J. (G. T. E. Chamberlain), Leicester.
Wedgwood, F. B. (J. F. Butlin), London.
Welch, C. H. (F. A. Walker), Birmingham.
Wells, T. B. (H. H. E. Edwards), London.
Westhead, B. T. (S. Shemmell), Stafford.
Westhead, N. A. (W. H. Westhead), Stafford.
White, I. (N. H. Gill), Leeds.
White, W. (E. Moss), Accrington.
Whittaker, R. P. A. (F. E. Hawkes), Luton.
Whitten, C. A. F. (A. A. Barger), London.
Wilbraham, P. (H. A. Beeny), Bognor Regis.
Wilkin, D. (J. W. Harker), Durham.
Williams, D. S. (R. B. Barker), London.

* See also Certificates of Merit above.

Williams, E. N. (A. K. Williams), Brighton.
Windsor, J. F. (A. F. Chick), London.
Woffenden, D. J. D. (M. W. Vowles), Bristol.
Wong, C. V. R. (L. J. Bentley), London.
Wood, B. M. (R. R. Bridgford), Manchester.
Wood, C. G. (P. J. L. Case), Watford.
Woodward, R. (W. F. Ewbank), Liverpool.
Woolf, A. R. (I. N. Woolf), London.
Woolley, G. P. (G. H. Hampton), Manchester.
Worley, G. W. E. (C. H. Kohler), London.
Wright, C. R. (W. C. Nelson), Wolverhampton.
Wright, K. M. B. (C. L. Woolveridge), London.
Wynn-Evans, P. G. (C. B. Burrows), Liverpool.

Young, P. G. (N. B. Nutt), London.
Young (Miss), R. M. (H. K. Campbell), Bristol.

502 Candidates passed. ***566 Candidates failed.***

PRELIMINARY EXAMINATION

Held on May 15th, 16th, 17th and 18th, 1951

First in Order of Merit and Institute Prize
West, Donald (Chorley).

Full List of Names of Successful Candidates
(in alphabetical order)

Arnold, C., Horsham.
Arnold, G. F., Syston.
Atchison, D. J., Sidcup.

Bowyer, J. R., London.
Blight, D. S., Ebchester.
Buckley, D. A., Oldham.
Buller, R. St J., Taunton.
Bunyan, J. A., London.

Caldecott, C. P., Wrexham.
Carrington, P. J., London.
Carter, G. W., London.
Charlton, M. P., Birmingham.
Churms, K. J., Tettenhall.
Collins, D. R. G., Southsea.
Cotter, T. E., London.
Cotterill, R. T. J., Birmingham.
Creedy, A., Coventry.
Crimp, G. E., Plymouth.
Crofts-Bolster, R. G. R., London.

Dibb, P. J., Huddersfield.
Drake, D. J., London.
Dyball, A. J., Leatherhead.

Gatensbury, R. C., Shrewsbury.
Gohar, M. M., Newcastle upon Tyne.
Goodenough, J. M., Southampton.
Grant, M., Surbiton.
Gunn, J., Walsall.

Hall, D. N., Mapperley.
Harrison, C. J., Oxford.
Hewitt, E. J., Birmingham.
Hill, E. F., Wolverhampton.
Hodges, D. J., Welwyn.
Holmes, B., Huddersfield.
Holmes, M. G., Leicester.
Hopcraft, D., Burton-on-Trent.

Jarvis, J. E., Tunbridge Wells.
Jeffreys, N. V., Glamorgan.
Jenkins, B. S., Chester.

Knight, K. S., Liverpool.

Lane, J. M., Thorpe Bay.
Law, B. W., Bolton-on-Dearne.
Lean, R. M., West Kirby.
Lerner, S. J., London.
Lindop, C. C., Crewe.
Lovewell-Blake, G., Great Yarmouth.
Lownds, G. J., New Malden.

Macpherson, D., Grays.
Mepham, B. W., Shepperton.
Messere, D. R., Westcliff-on-Sea.
Mico, E., Blackpool.
Milliken, E. B., London.
Mitchell, J. G., Sowerby Bridge.
Montgomery, A. G. C., South Croydon.

Nettleton, B. H., Brighton.
Nightingale, B. E., Cheam.

Page, J. R., Worcester Park.
Phelps, P. W., Upton-on-Severn.
Phillips (Miss), M., Gateshead.
Preece, I. A., Wolverhampton.
Procter, I. M., Scarborough.

Robertson, E. G., Hull.

Scholey, G. M., Leeds.
Shannon, M. J., London.
Skelton, P. S., Redhill.
Smith, B. E., Liverpool.
Smith, E. G., Birmingham.
Smith, H. S., Stockport.

Taylor-Young, M. H., Bournemouth.

Wain, A. D., Newcastle, Staffs.
Watts, D. J., Newton-le-Willows.
*West, D., Chorley.
Westwick, C. A., Greenford.
Wilson, D., Liverpool.

* See also Order of Merit above.

73 Candidates passed. ***187 Candidates failed.***

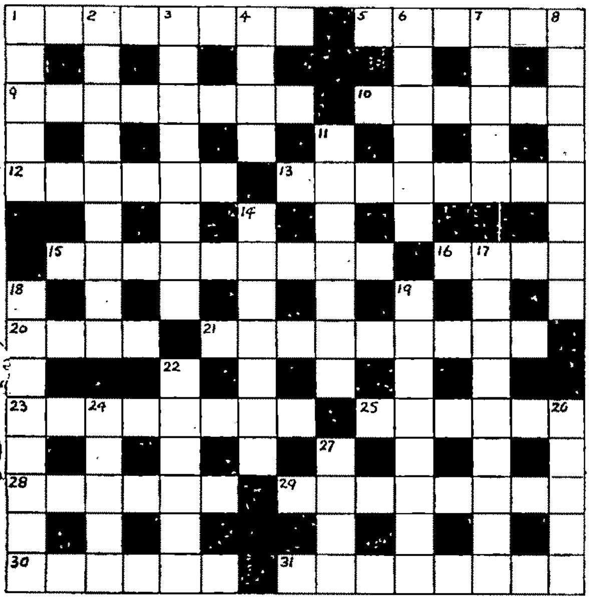
Summary of Results

	Final	*Intermediate*	*Preliminary*	*Total*
Candidates Successful ..	528	502	73	1,103
Candidates Failed	605	566	187	1,358
Candidates Sat	1,133	1,068	260	2,461

A HOLIDAY CROSSWORD

by J. ROSE, A.C.A.

(1, 2, 7, 14, 17, 18, 19 and 22 down may be of interest to members of the Institute)



ACROSS

1. Men seldom think the presents are holiday town equals (8).
5. After elbow, before the palm (6).
9. Through fire and water (8).
10. See 13 (6).
12. Almost here (6).
13. Do baby's farewells make music? Ask 10 (8).
15. The baritone's job at the camp-fire? (9).
16. Recess, usually regrettable after the age of fifty (4).
20. C.A. around run (4).
21. Hatch service (9).
23. Shakespeare's coal ride (8).
25. Caps (6).
28. I'm off colour (6).
29. Plant the man with wheels (8).
30. Gives back to front (6).
31. There are dozens of dozens in a great gross, but a hundred has tens (8).

DOWN

1, 18. Out of form (3, 2, 8).
2. Often act afterwards (9).
3. Where religion and science meet (8).
4. is (4).
6. Usually in the oven – so's art (6).
7, 17. No competitor for the third light home (5, 9).
8. Took twelve pence (8).
11. Confused flavour led below (7).
14. Five nines (7).
19. Things transferred on death (8).
22. Chap who pays more (6).
24. Together on mountains (5).
26. Found along the coast and in ship (5).
27. In a way a house nurse (4).

The solution will appear in next week's issue.

NOTES AND NOTICES

Personal

MESSRS GEO. MACKENZIE & Co, of Northern Trust Building, 28 Harrison Street, Johannesburg, announce that they have opened a branch office at Kilmarnock Buildings, Corner Eleventh Avenue and Fife Street, Bulawayo, Southern Rhodesia, under the style of GEO. MACKENZIE & Co, Chartered Accountants. Telephone No. 5770; telegrams and cables: 'Residue, Bulawayo'; P.O. Box 238.

MESSRS JARVIS BARBER & SONS, of Telegraph Building, High Street, Sheffield, announce that they have taken into partnership Mr HAROLD BATTYE, A.C.A., A.S.A.A. The name of the firm remains unchanged. Mr BATTYE was for some years a partner in the firm of Messrs LOVELOCK & LEWES, Chartered Accountants, of Calcutta and Madras.

Information and Advice for Hospitals

KING EDWARD'S HOSPITAL FUND FOR LONDON: DIVISION OF HOSPITAL FACILITIES

For many years prior to the introduction into Parliament in 1946 of the National Health Service Bill, King Edward's Hospital Fund for London had made available to the voluntary hospitals in London – and other organizations interested in hospital work and practice – information which it had obtained as the result of routine activities and a number of special inquiries. The King's Fund also offered advice.

The coming into operation on July 5th, 1948, of the National Health Service Act, 1946, led to an intensification of interest in all phases of hospital work. This, combined with the growing complexity of modern hospital organization and management, increased the demand for information and advice – a development not unforeseen by the King's Fund which established a Division of Hospital Facilities in November 1948.

The Division comprises a general information bureau and advisory service; an accounting and financial advisory service; and a library of over 800 British and foreign hospital books, as well as journals, and plans, and it has become the focal point of a world-wide hospital information service.

SURVEYS AND INVESTIGATIONS

In addition to supplying information, the Division visits hospitals, discusses problems and, where asked, gives advice. It carries out investigations and surveys and submits reports thereon. At present it is engaged, jointly with the Nuffield Provincial Hospitals Trust, in carrying out a special costing investigation for the Ministry of Health, and a private investigation for another Government department.

Among the activities of the Division is the receiving of hospital visitors from overseas and, where required, the arranging of tours of hospitals for them.

The object of the Division is to make a worth-while contribution to securing and maintaining an efficient hospital service. This service cannot be run on sentiment alone, important as this factor is. There must be a proper combination of sentiment and business methods if the maximum services are to be obtained at a reasonable cost; a balance which will prevent sentiment and lack of knowledge from wasting funds and business methods from being too rigid at the expense of the patients.

Last week the Division took over new and larger accommodation which will enable it to carry out its increasing work more expeditiously and to develop its activities. No charges are made for any of the services of the Division.

The Director of the Division is Captain J. E. Stone, C.B.E., M.C., F.S.A.A., and the offices are at King Edward's Hospital Fund for London, 10 Old Jewry, London, EC2.

Recent Publications

PALMER'S COMPANY PRECEDENTS. Sixteenth Edition by His Honour A. F. Topham, K.C., LL.M. xcviii+1,238 pp., 10×6½. £5 10s net. Stevens & Sons Ltd, London.

OFFICE ORGANIZATION AND MANAGEMENT. Fifteenth Edition by Donald Cousins, Professor of Accounting, Birmingham University. vii+283 pp., 9×5½. 18s net. Sir Isaac Pitman & Sons Ltd, London.

SUPPLEMENT TO VALUATION FOR COMPENSATION AND DEVELOPMENT CHARGES, by Ronald Collier, F.S.I., F.A.I. viii+185 pp., 10×6½. Main work and supplement 32s 6d, by post 10d extra. Supplement alone 15s, by post 6d extra. Butterworth & Co (Publishers) Ltd, London.

AGRICULTURAL DEATH DUTIES, by W. Walker Watson. iv+76 pp., 8½×5½. 10s 6d net. The Country Gentlemen's Association Ltd, London.

OFFICE SYSTEMS, Vol. I. 84 pp., 9½×6. 7s 6d net. Office Management Association Ltd, London.

Other Publications Received

INDUSTRIAL WELFARE AND PERSONNEL MANAGEMENT. (May-June.)
DER WIRTSCHAFTSPRUEFER. (Berlin.) (June.)
THE ACCOUNTANTS' MAGAZINE. (July.)
THE CONTROLLER. (New York.) (June.)
N.A.C.A. BULLETIN. (New York.) (June.)
ENGINEERING INDUSTRIES BULLETIN. (July.)
ECONOMICA. (May.)
BULLETIN OF THE OXFORD UNIVERSITY INSTITUTE OF STATISTICS. (June.)
MONTHLY REVIEW OF THE BANK OF NOVA SCOTIA. (Toronto.) (May-June.)
LLOYDS BANK REVIEW. (July.)
THE BUILDING SOCIETIES' GAZETTE. (July.)
HANDELSVIDENSKABELIGT TIDSSKRIFT. (Copenhagen.)
LOCAL GOVERNMENT FINANCE. (July.)
THE LAW SOCIETY'S GAZETTE. (July.)

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF AUGUST 5th, 1876

Extract from 'Notes in Passing'

Accountants' Charges

We cannot conclude our notice of this case without referring to the remarks of the Master of the Rolls upon accountants' charges. An accountant has been employed by the Stock Exchange creditors, and the question arose as to the allowance of his costs. His lordship is reported to have said that 'the charges of the accountant in this instance appeared extremely moderate, but that accountants' charges were so often extravagant that he had made a rule never to allow an accountant to be employed, except on terms of being paid either a sum not exceeding a certain sum, or such a sum as the judge should direct'. We are left in doubt as to the ultimate fate of the particular charges in question; but the observations on charges in general call for some slight notice. The mistake which underlies them is found in the idea, inadmissible with regard to any other profession, that accountants' work always proceeds according to rule and can therefore be accurately measured by some standard. There may be two cases in both of which £500 worth of property has to be realized; and yet they may so differ in their essential circumstances that whereas £10 would be good pay for one, £100 would be inadequate pay for the other. To talk of this or that accountant's charge as being extravagant or moderate, without having a due knowledge of all the incidents which surround it, is to talk profitless nonsense; and the sooner those accustomed to such foolish displays discontinue them, the better for all concerned.

Dr Barnardo's Homes

The 'family' in Dr Barnardo's Homes now numbers over 7,000; there were 120 admissions during May last.

ANNOTATED TAX CASES

Edited by ROY E. BORNEMAN *of Gray's Inn, Barrister-at-Law*

Published at frequent intervals. Reports of Income Tax, Sur-Tax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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ESTABLISHED 1874

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MIGRANT COMPANIES AND THE TREASURY

THE 1951 Finance Act received the Royal Assent on August 1st last and Section 36 is now in force. Under it, a company which is resident in the United Kingdom needs Treasury consent to do any one of the following things:

(*a*) Cease to be resident.

(*b*) Transfer any part of its business to a non-resident.

(*c*) Permit its overseas subsidiary to issue any shares or debentures.

(*d*) Permit the transfer to its overseas subsidiary of any shares or debentures in which it has any interest, except where the transfer is for the purpose of a director's qualification.

The Treasury has given general consent to certain classes of transactions, detailed on another page, which occur most commonly for normal commercial reasons. To assist it in deciding whether to consent in other cases, an Advisory Committee has been set up. LORD KENNET is the chairman and the other members are SIR KENNETH SWAN, K.C., and MR B. H. BINDER, F.C.A., a member of the Council, and a past president, of The Institute of Chartered Accountants in England and Wales. The CHANCELLOR OF THE EXCHEQUER stated the Committee's terms of reference thus:

> 'In their consideration of matters referred to them I have asked them to take into account the significance of any new factors or circumstances which are represented to require the proposed change, and any compelling reasons for such applications based on the efficiency and development of the applicants' operations. They will weigh against considerations of this kind the prospective loss of revenue or of foreign exchange to this country which the transaction, if permitted, would entail; and they will inform me whether, on the balance of considerations, it would in their opinion be in the national interest that permission should be granted.'

This is delegated legislation with a vengeance. Everything is prohibited which the Treasury does not specifically allow. The moment the prohibition becomes law the Treasury applies general modifications to it which are themselves worded with all the complexity of a section of a Finance Act. Whether a particular transaction qualifies for exemption or not may be difficult to decide but the persons concerned cannot take the benefit of the doubt without risking heavy penalties. If they can show that they are within an exemption, the Treasury may withdraw it without formality. The task of the Advisory Committee is difficult and invidious. It will involve complicated calculations on supposititious figures of the ultimate effect of a proposed transaction, followed by a decision as to whether that effect would be in the national interest. There are many who feel that the national interest would perhaps best be served by repealing Section 36 altogether.

THE ROYAL COMMISSION

MORE CRITICISM OF THE LIBERAL PARTY SCHEME

THE Liberal Party scheme for the amalgamation of income-tax with social security has been subjected to further criticism, this time in a memorandum submitted to the Royal Commission on the Taxation of Profits and Income, by the Inland Revenue Staff Federation. It gives a detailed summary of the plan outlined in the Liberal Party Yellow Book, repeating the advantages claimed. In criticizing the plan it observes that although the Liberal Party Committee has approached the problem with little more than a superficial glance at income-tax law and practice, the merits of the plan are merits of principle and none the worse for being popularly or loosely presented. Moreover, although the Yellow Book is full of figures, these again are irrelevant to the consideration of the principle. Any failure to balance income with expenditure can be corrected by increasing the rate of tax or reducing the allowances.

The Federation stresses the limited scope of the plan. It points out that of the 529 sections of the draft income-tax Bill, published recently, only 21 would be affected, namely, those dealing with the graduation of tax by means of personal and other reliefs. It would like to see a critical examination of the present basis of differentiation between 'earned' and 'unearned' income, observing that much 'earned' income comes from sinecures carefully contrived by employers, trade unions, and the State, while much 'unearned' income is the result of considerable effort.

While accepting the advantage of a flat rate tax in increasing incentive, by giving a man more for his extra effort than he now receives, the Federation considers that the plan is likely to be disincentive in another way. If the connexion between paying tax and receiving benefits is obscured, important psychological results will follow, even though it be admitted that already the contributions to national insurance are incommensurate with the benefits and that the allowances are not large enough by themselves to encourage slacking. It looks to a strengthening of the contributory principle and an immunity of the resulting funds from Budgetary pressure. On the other hand it accuses the Liberal plan of a lack of elasticity, pointing out that although in theory allowances could be reduced to maintain solvency, such a reduction would arouse the same kind of emotional feelings as would a proposal to reduce unemployment pay or old age pensions. This would confine alterations in practice to changes in the standard rate, without the advantage of complementary manipulations of income-tax allowances to modify the effect of the change upon particular economic and social groups.

As regards administrative savings to be expected from the scheme, the Federation is rather more pessimistic than the Inland Revenue. In connexion with the assessment of self-employed persons in the lower income groups, it points out that although only 3·7 per cent of Schedule D profits in 1948–49 were made by persons in the £0–£250 per annum group, this group comprised nearly one-half of the number of Schedule D taxpayers dealt with. If they all had to pay tax at the flat rate on all profits, these profits would have to be meticulously calculated. In addition, there is the host of casual earners, domestic helps and the like. The Federation adds that if the plan were adopted, tax evaders would be more expensive to the State than they are now, since they would obtain their allowances without having to make a return of income. The familiar objection is made that the payment of the allowances would absorb a very large number of civil servants.

Even if the plan were to result in a saving of staffs, in the Federation's view sweeping changes ought to be avoided. Life is already complicated and millions of people who are accustomed to the existing scheme would have to master the new one. Indeed, the Federation would build further on the existing structure, expanding the present national insurance contributions to cover other social security benefits, and related in amount, not to the available income of the contributor, but to the amount of benefits he may expect to enjoy. Unfortunately, the constant fall in the value of money makes the attainment of this ideal progressively more difficult, for any such scheme presupposes that the pound sterling will be of the same value when the contributor receives his benefits as it was when he paid his contributions.

COMPARATIVE FIGURES

CAN ITEMS IN INDIVIDUAL YEARS BE 'ADJUSTED'?

Companies Act, 1948, 8th Schedule, paragraphs 11 and 14 (5)

by E. HARMAN, A.C.I.S.

The author elaborates on his letter which was published in the correspondence columns of our issue of June 30th, 1951

ALTHOUGH of great significance, the importance of comparative figures is not immediately apparent. Correctly used, they mark stages in the life of a company – whether it progresses or drifts backwards – in a form readily understood by the majority of shareholders, however unskilled they may be in interpreting accounts.

What has been the use made of comparative figures since the passing of the Companies Act, 1948, and its requirements to give them?

The answer would appear to be that because of what I believe to be a (widely held) misinterpretation of the requirements, comparative figures have been of immeasurably less value than they could have been had the Act been correctly interpreted. The interpretation generally held is that in the accounts of a particular year the Act requires a complete restatement of the previous year's figures. The paramount requirement of this interpretation appears to be that the comparative figures columns must 'balance' at all costs; this accomplished, nothing else matters.

The Act does not require a repetition of last year's figures but (much more important) only the statement of those items common to both sets of accounts.

At this point, it is worth while to examine the two broad requirements going to make up what may be termed the science of comparative figures. The first requirement is the subject-matter comparison; for example, there is no comparison between directors' fees and depreciation. In other words, like must be compared with like. This requirement is not nearly so simple and self-evident as might at first be supposed, and is the cause of more 'adjustments' of comparative figures than any other. For example, in year one income is received on shares in a company which, in year two, becomes a subsidiary. There is in fact no comparison between the incomes of the two years but how often does one see the two unlikes made to compare with a 'suitable adjustment'. The second requirement is what might be termed the quantitative-comparison.

By 'quantitative-comparison' is meant the stating of the average capital employed in order to produce the particular item of income. This requirement is as important as the first. There can be no comparison between two sets of trading profits if in year two the issued capital of the company has been doubled and is now twice what it was in year one. The average capital calculations made for E.P.T. purposes, suitably adapted, could give, without too much difficulty, the essential quantitative-comparison figure.

How much more informative trading profit figures would be if the average capital employed were also shown! The criticism that the accounts would be rendered cumbersome and difficult to interpret if average capital, that is, quantitative-comparison, figures were given, is answered by saying that it is only against the most vital figures in published accounts – that is trading profits – that it is required. It might be, perhaps, in some further cases, against subsidiary-company and other investment income.

It is to be observed that the items in the balance sheet already conform to both the above requirements; for example, movements on reserves and the additions to sales of, and amounts written off, capital assets.

The last and perhaps most debatable difficulty in the application to the science of comparative figures has now to be stated. When the Act requires the 'corresponding' amount to be stated, does it mean that the *exact* amount of the item is to be given?

Taking subsidiary-company income as an example, if in year two the income is from two companies, but in year one was from three companies, is it not permissible to scale down the item in year one to the income received from the two companies still held? The 'corresponding' or comparative figure so given will not be found as an item in the figures of year one, but is there any requirement that it should be?

An extension of the view now being put forward implies that items in year one not used for comparative purposes in year two are discarded. This means that the comparative columns will not balance.

NORTH AMERICAN COMMENTARY–XXVI

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
Professor of Accounting, McGill University, Montreal

Journal of Accountancy, New York, May and June

Education for the Accounting Profession

COLLEGE graduates are said to be consistently more successful than others in the Certified Public Accountants' examinations. This leads the editorial to raise again the much debated question of making college education a legal requirement for admission to the profession, if recognition as a learned profession is to be obtained. The procedure would be to set up professional schools of accounting at the graduate level within the universities.

The Individual Practitioner

For the help of individual practitioners the American Institute of Accountants has undertaken publication of the C.P.A. handbook, a comprehensive manual. This and other steps have resulted from the appointment, some years ago, of an advisory committee of individual practitioners. The aim is to make the national organization 'a more effective partner of its members who need its services in that capacity'.

Women Public Accountants

There are more than 500 women public accountants in the United States. The call of men to active service is once more opening the public accounting field to women. The American Institute has asked college deans to suggest that women interested in the field should major in accounting.

Excise Taxes *v.* Income Taxes

The National Association of Manufacturers is said to have recommended an excise tax on nearly all manufactured products except food, at such a figure as will balance the budget after making certain government economies. It is argued that the massive demand for consumer goods originates from the lower income groups, since income-tax has already curbed the higher. The editorial's comment is that permission to choose between spending and saving seems more fitting to the democratic way of life, and the views of readers are called for.

The Dangers of Regimentation

Mr Paul Grady, C.P.A., tells how in 1944 there seemed a danger that the American Institute's bulletin on 'Examination of financial statements', which was more than twenty-five years old, might be resulting in regimentation of accountants, being used as a check list of required auditing procedures. The bulletin was therefore withdrawn but, with some reluctance, it was found necessary to publish another general pamphlet for young men entering the field. Mr Grady says that with something over 65,000 copies sold, there is reason to fear that this new document, 'Audits by certified public accountants', is being used for staff training and guidance on a check-list basis which is likely to produce only craftsmen. The Institute has other special reports on 'Auditing standards' and 'Internal control' and these, with 'Case studies in auditing', are considered better for staff training. Increasing attention to this question of training within the profession is being given in the United States, with typical American thoroughness. But the danger of regimentation is real and Mr Grady's warning needs indeed to be heeded.

Tax Practice: Lawyers and C.P.A.s

The June editorial reports that the 'Statement of principles' as to practice in the field of federal income taxation, recommended by the national conference of lawyers and certified public accountants, has now been approved by the Council of the American Institute of Accountants. It had already been accepted by the House of Delegates of the American Bar Association so that, for the first time, an official statement endorsed by the highest authorities in each profession now outlines the proper scope of activity of members of the two professions in this controversial field. It is the culmination of over fifteen years of effort, a 'triumph of reason over violence' says the editorial. It is only a beginning, for it is in general terms and gives no specific answers as to what lawyers and C.P.A.s may or may not do in particular circumstances. But it provides a basis for negotiated settlements of differences without litigation or legislation. It records the opinion of

the organized bar that C.P.A.s are members of a recognized profession comparable to that of the law.

Harvard Business Review,
Boston, May

Accelerated Amortisation

In a detailed examination of the device of accelerated amortisation, for the protection of firms which expand in the defence effort, Messrs Robert Schlaifer, J. Keith Butters and Pearson Hunt, state their belief that the system involves serious dangers to business firms and the public interest. The policy seems to be to estimate the percentage of additional emergency production which will be saleable after the emergency and grant accelerated amortisation for the rest. But some suppliers acquiring new and efficient plants may be able to sell all their output. In any case a producer, if he has to lose all his additional sales, will abandon older, less suitable plants. The authors say that a better way of dealing with the situation would be to let firms make normal profits as long as the emergency lasts, and give them an option after the emergency of either retaining the additional assets or handing them to the government, in return for their depreciated book value.

The Controller,
New York, June

College-Industry Co-operative Training

The National Committee on Education, appointed by the Controllers' Institute, has put forward a training programme by which companies may employ selected undergraduates of collegiate schools of business during their summer vacations. The aim is to give management a 'preview' of promising students and, at the same time, provide intelligent substitutes for permanent staff away on holiday. The education committees of local branches of the Institute will make arrangements with colleges to bring employers and students together. Alternatively, students may be placed for terms or quarters rather than during vacations, or two-student teams may cover one job in succession to each other. A suggestion made by Mr David D. Devine, comptroller of Bell Aircraft Co, is that students might be trained in fundamentals in college without taking their graduate work, until they had had some experience enabling them to decide: (1) whether they wished to become administrative accountants; and (2) whether they were likely to be able to do so. The Education Committee has prepared a booklet, 'Careers in management accounting and control', for the guidance of students who have majored in accounting. This whole development is most important. It may be added that some of the larger public accounting firms provide similar facilities for practice in the profession, for those accounting students who are aiming at public accounting. The practice of internship, as it is called, is growing in North America, some universities giving credit for degree purposes in the case of approved internship.

Canadian Chartered Accountant,
Toronto, May

Taxation in the United States: Literal *v.* Free Interpretation

Dean Erwin N. Griswold of Harvard Law School contrasts the United States tax system with that of Canada and indicates the relative ease with which the Tax Act is changed in Canada, by Cabinet decision followed by Parliament's assent, with little opportunity for public consideration. In the United States a major change of the statute takes many months of labour as it goes through the House of Representatives and its Committee on Ways and Means, followed by the Senate Finance Committee (with public hearings) and the Senate. Debate is unlimited and in the end there is the Committee of Conference of members of both houses, where final compromises are made. He stresses that this system has the merit of giving the public an opportunity of being heard. He then shows that in recent years the classic view of strict interpretation of statutes has in the United States given way to a freer construction, the rule of literal construction being dead. The United States Courts now regard it as their proper function to construe the language to get the basic meaning of Congress. Dean Griswold strongly approves of the change and quotes indications that Canada is tending in the same direction. In a well-reasoned reply, Mr Stuart Thom, B.A., LL.B., points out the unbroken line of judicial authority in Great Britain and Canada, in favour of strict interpretation, until the last decade. He agrees that today there are indications of a change to the freer basis in Canada, and he has grave doubts about it. If a clear, sharp line is drawn between what is taxed and not taxed it is true that ingenious tax evaders are given their chance until the statute is altered, yet the average taxpayer is satisfied. But a law made up of principles leaves taxpayers in uncertainty and, by its very vagueness, plays into the hands of the bold transgressor.

TRAINING FOR ACCOUNTANCY

by Sir HAROLD HOWITT, G.B.E., D.S.O., M.C., F.C.A.

MAY I commence by saying how pleased I am that accountancy has been given the honour of a Cantor Lecture[1] in the series inaugurated by Sir Godfrey Ince whose lecture a fortnight ago I had the privilege of attending? May I add that I am also pleased that the privilege of speaking about accountancy has fallen to me and has afforded me the opportunity of doing so in this delightful hall, which I confess I had not previously visited.

I presume my audience is composed of those who are interested as parents, as educational experts, as industrialists, and as members of other professions. I will try to have this in mind in my remarks and not to get down to unnecessary details.

I will try also to deal with the subject generally and not to refer too much to my own Institute. I have no authority to speak for the other bodies to whom I shall refer, and indeed, so far as I may express opinions, they must be taken to be my own and not in any way official.

I propose to make my comments under the following general heads: the structure of the accountancy profession; the status of the profession; qualities required; the student's training; the examinations; post-examination problems.

Structure of the Accountancy Profession

An initial difficulty in defining the accountancy profession is that virtually everyone in varying degree deals with accounts. Micawber did so, our wives do, bankers and solicitors undertake certain accounting functions for their clients, and there are even turf accountants. I only mention this to emphasize that it is probably more difficult to define and control the public practice of an accountant than it is in the case of other more specific professions such as those dealing with medicine and the law. We have, as a matter of fact, amongst ourselves, been trying for several years to regulate the profession as a whole, though still retaining the separate entities of our various professional bodies, but we have not yet fully surmounted the difficulties which arise.

My own Institute, that of the chartered accountants of England and Wales, is the largest of these bodies, having obtained its charter in 1880. I ought, however, to hasten to add that it is not the oldest, the first Royal Charter in Scotland having been granted in 1854. The three Scottish bodies which have existed in Edinburgh, Glasgow and Aberdeen respectively, are now being merged into a combined Institute of Chartered Accountants of Scotland. There is also an Institute of Chartered Accountants in Ireland which covers both northern and southern Ireland.

[1]This Cantor Lecture, which is reproduced by kind permission of the Secretary of the Royal Society of Arts, was delivered to members of the Society on February 19th, 1951.

As to numbers, you may take it that there are just over 15,000 in the English and Welsh Institute, nearly 5,000 in the Scottish and nearly 800 in the Irish, a total of 20,800 chartered accountants, in Great Britain and Ireland.

Next I would mention the incorporated accountants, who are members of the Society of Incorporated Accountants and Auditors which was formed in 1885. Its present membership is about 8,800 and though largely engaged on public and other accountancy work, its members include a number of those in the sphere of municipal accountancy.

Next, the certified accountants who are members of the Association of Certified and Corporate Accountants, which in its present form was established in 1938 as a result of an amalgamation of three other bodies, the oldest of which started in 1896. Its present membership is about 7,800.

Three Main Groups of Accountants

These are the three main groups of accountants – chartered, incorporated, and certified – who cover the normal field of public accountancy. They are the bodies who are recognized by the Board of Trade under the audit provisions of the Companies Act. They are also the bodies normally recognized in the audit provisions of Acts dealing with local authorities, nationalized undertakings, etc.

It will be seen from the figures quoted above that the membership of these three groups of accountants amounts to approximately 37,000 and from information which their officials have been good enough to give me, you may take it that this membership may be divided approximately as follows:

Practising as public accountants or employed by practising accountants ..	19,000
Engaged in commercial and other undertakings, retired, etc.	18,000

In total, then, it may be said that over half is engaged in the field of public accountancy. I ought to include the caveat that the compilation of these figures involves a certain amount of estimating.

There are two other categories of accountant to which I should refer, namely: municipal accountants, who are members of the Institute of Municipal Treasurers and Accountants formed in 1885: its present membership is about 2,000; cost and works accountants, who are members of the Institute of Cost and Works Accountants formed in 1919: its present membership is about 3,000. As the names of these two bodies imply, they are concerned with specialized branches of accounting – in one case with the finances of local authorities and in the other with the costing records of industrial undertakings. There are a number of other bodies but for my present purpose I do not think I need deal with them.

It is clear from the figures I have quoted that judged by numbers – and I hope in other respects too – accountancy ranks high among the professions. It may be said that it has two main branches:

(*a*) Accountants in public practice, that is to say those who hold themselves out as being qualified to undertake for clients who approach them, audit, accountancy, taxation, insolvency, investigation, costings, and other work normally undertaken by the profession.

(*b*) Accountants engaged in industrial, commercial, municipal and other organizations and in Government service, and in such capacities as financial controller, chief accountant, treasurer, internal auditor and many other positions involving responsibility for accounting and financial matters.

One of the most noticeable developments in the profession in the last eighty years or so has been the absorption into the industrial branch of a large number of accountants trained in the practising branch. The socialized industries and the trading activities of Government departments have also attracted a large number of accountants in recent years.

Status of the Profession

I often wonder the point at which an occupation in life is entitled to give itself the dignity of being called a profession. This has long been accepted in such callings as those of a doctor, a solicitor and a barrister.

I suppose some of the qualifications required in the case of public accountants are:

(*a*) A considerable amount of learning, consisting broadly of a good general education, a sound technical knowledge of the principles underlying all the work of the profession and a working knowledge of the law which affects that work.

(*b*) A minimum period of practical experience, under the guidance of a qualified practitioner in public accountancy.

(*c*) The testing of competence by examination.

(*d*) An understanding and observance of a code of professional ethics which enables clients, the public at large, and fellow practitioners, to rely on a qualified public accountant's integrity and impartiality. Failure to observe the ethics of the profession involves the serious risk of being struck off the membership list.

(*e*) A wide education in a broader sense than the vocational training and experience.

(*f*) A realization that the service rendered is of greater importance than the financial reward obtained, though in the long run the latter is no doubt influenced by the former.

(*g*) The personal attention of the practitioner to the affairs of his client.

(*h*) A readiness to contribute knowledge, experience and skill towards the development of the profession for the benefit of present and future practitioners.

With the specialization required in modern business, however, and the need to cater for the customer first, certain of these tests might nowadays be held to apply to many industries which would not claim to be professions. I suggest, therefore, that the final test is as to whether the public accept the calling as a profession. I hope this may now be claimed for qualified accountancy and the most recent proof of this is that your Society has been good enough to include this calling among your Cantor Lectures on training for the professions.

I cannot help commenting that in the recent report of the Special Committee on Education for Commerce, 'a profession' was defined as

'any body of persons, using a common technique, however meagre in content and however little related to fundamental study, who form an association one purpose of which is to test competence in the technique by means of examinations'.

I should not myself regard this definition as satisfactory.

Qualities Required

There is no mystery about the qualities required for a professional accountant. They are of the normal variety but perhaps required in some respects in rather a special degree. They include qualities such as integrity, ability, hard work, tact, common sense, balanced judgment, clear reasoning, together with ability to be concise and lucid both orally and in writing.

I would like to allay the common fallacy that accountants must be mathematical wizards. Advanced mathematics are not necessary; but a sound understanding of elementary mathematics is important.

A word should probably be said about the desirability of taking a university degree before entering the profession. Personally, I do not think it necessarily follows that university graduates make the best accountants, nor does it follow that those who have taken an arts degree are any less fitted than those who took science or mathematics. Certain of the universities of England and Wales are collaborating with the accountancy profession on a specified form of degree which emphasizes accountancy, law and economics, and which eventually exempts from the professional Intermediate examination.

The Student's Training

The first problem of the young man in deciding to go in for accountancy is to choose the office in which he is to be trained. This is largely a matter of individual preference and temperament, combined also with ability to find a suitable vacancy. For some, a comparatively small office in London or the provinces may give better fundamental training; others may prefer to go direct to one of the larger firms straight away, and take a chance on making good and being entrusted early with responsible work.

The chartered bodies are based entirely on the principle of articles, and in England and Wales the number of articled clerks is restricted to two per

principal. The other public accountancy bodies also have articles as one of their methods of training.

It used to be the rule in certain offices for the principal to ask for a premium from his articled clerk. This practice has, however, disappeared to the extent that it is now possible for any young man of proper suitability to obtain articles without premium. It is also now a common practice for a small salary to be paid to an articled clerk – as indeed it should be, for public accountancy has the advantage for both principal and clerk that the latter can be helpful from the start of his career.

It is sometimes recommended that an intending student should spend a trial period in the office of his choice before actually entering into articles. This gives the prospective principal and the student a chance of judging whether they will get on together and also gives the student a chance of seeing what is involved in the career. It should, however, normally be borne in mind that the opening period in an accountant's office is often dull, involving a considerable amount of routine checking, additions, etc.

Specialized Work

On the other hand in the later years of a student's training, the work becomes extremely interesting. He has the privilege of entering into the offices of his principal's clients and of obtaining insight into private affairs and industrial problems such as probably no other profession can give. This insight will include not only auditing and the judgment of men and affairs which this involves, but also specialized work such as costing, taxation, investigations, trusteeships, arbitrations and even the control and management of business in cases such as liquidations and receiverships. It is a natural corollary to the right to such privileges that the student shall be of good type and acceptable to the client and able and bound to conduct his work under the bonds of strict confidence. He will, during this period, learn to understand the etiquette of his profession and the degree of discipline which is exercised by the governing bodies.

It is clear that for such an office training to give full results, the student must be able and prepared to row in the boat with his seniors to the fullest extent. It is no good his thinking that he can spend so many days a week in the office and so many off for private study – the so-called 'sandwich' principle recommended by the Special Committee on Education for Commerce to which I have referred. The student is entitled to his time off for examinations, on which I shall later comment, but whilst he is in the office he must be available to complete the jobs on hand as required, generally under pressure of time, or he will obviously not fit into the picture. For these reasons, I personally – and I can speak for my Council in this respect – profoundly disagree with the proposals of the Special Committee so far as concerns my Institute. Not only do I think the 'sandwich' principle would not work, but I do not think the special training our students require, which involves a close correlation of practical and theoretical work, can be provided in the standardized form recommended by the Special Committee, nor do I think there is any necessity to require that a young man may not start on his accountancy career until he is 18 years of age. One of the merits of our profession is that we can take in boys straight from school at 16 or 17 if they wish to come, and if their circumstances require that they should. They will have ample opportunity for broadening their knowledge and becoming good citizens as well as becoming proficient in their specialized calling.

Military Service

Military service presents special problems and the decision whether to take it before or after entering upon the accountancy career is very much a matter of choice, depending upon the individual young man. I personally think that in this particular calling, provided he is sufficiently mature, it is better that he should take his military service after leaving school or university, and before embarking upon accountancy. He will then the more easily be able to absorb the problems ahead of him and when he has taken his accountancy qualification, he can go straight into whatever further branch of the calling he elects to follow. On the other hand, if his accountancy career has already been started he can normally obtain deferment of his military service till he has passed his examinations.

The student should join his local students' society. These exist in most large localities and provide facilities not only for lectures and tuition for the purpose of assisting in the passing of examinations, but also for debates and other activities designed to broaden the basis of his citizenship.

Training for Professions

I was glad to hear Sir Godfrey Ince in his opening address say that he thought it was right that the major part of the training for the professions should be done by the professions themselves. With this I fully agree and, in the case of accountancy, I suggest that no case had been made for any part of the training to be done outside.

I noted also Sir Godfrey's comment that he thought the period of many apprenticeships is unduly long, though in this remark I think he was referring to technical training in industry, particularly of the type given in Government Training Centres. So far as the professions are concerned, he thought they were fully alive to the necessity of modifying their arrangements to meet the changed circumstances of the times. The accountancy bodies have given much thought to this problem over recent years and it is now generally agreed that the minimum amount of time for training desirable in a practising accountant's office is thirty months. The normal period under articles is five years (three years in the case of graduates) and some of the accountancy bodies referred to above require, for non-articled students, an even longer period. I should be very sorry to see any of these curtailed.

The Examinations

These are normally an Intermediate taken half-way through the period of service, and a Final examination, though in some cases the Final is taken in two parts.

The subjects to be taken include book-keeping and accounting, auditing, law (certain specified subjects such as company and commercial law), executorship, liquidations and receiverships, arbitration, costing, and general commercial and financial knowledge – and in some cases statistics and economics. These examinations are designed to test both factual knowledge and practical experience.

It is clear that for many of the above subjects it is only possible to find examiners and moderators who are themselves actively engaged in accountancy. The setting and marking of the papers, except in matters such as law, can only be undertaken by a qualified accountant himself, particularly if the emphasis on practical experience is to be retained.

I do not, however, for a moment suggest that the whole field of theoretical knowledge required for passing the examination can be found from the practical work encountered during the student's period in his office. This theoretical training is very largely supplied by a small number of recognized tutors who give their instruction mainly through correspondence courses and evening lectures. I wish to state frankly that this involves the student in a good deal of work outside office hours and there is naturally continual pressure from the students for more time off for theoretical work in preparation for their examinations.

A balance has to be drawn between these conflicting demands on the students' time and I am sure that the decisions taken have been in the interests of the students, not only from the immediate point of view of taking their examinations but also from the long-term point of view, having in mind their future careers and the general broadening of their experience.

Time off from the Office

To meet the immediate problems of examinations, my own view is that each student should be given a substantial period of time off from the office before each examination, up to six weeks before the Intermediate and up to eight weeks before the Final, apart from time required throughout the period of articles for attending lectures etc. This is, however, a matter where individual consideration is essential and in a few cases longer periods may be warranted. There are also, in some cases, facilities for students to spend a limited period of their service either abroad on the work of their principal, or in commerce under suitable supervision. It may be noted in passing that the concessions given to war-time candidates particularly in exemption from the Intermediate examination and reduction in the period of training have not in the result always proved to be to the advantage of the student, even for the passing of his Final.

I have stressed the above conflict between practical and theoretic study because it is at the root of our problem. I do not for a moment infer that there may not be individual students who could take their examinations in a much shorter period than laid down and some could do so very largely from books and without much practical experience. I do, however, suggest that these individuals are the exception and that even in their case – and there were such cases as a result of war concessions – they were not fully competent when through their examinations, to call themselves qualified accountants. They would probably be the first to admit this. This fact is merely a recognition of the limitation of examinations as a final test of competency and it would, in my view, be a mistake further to extend that limitation. On the other hand, the problem is constantly in the minds of the governing bodies of the profession and the details of this system are continually under review, having in mind the interests of the student and the standards of the profession. It is, of course, natural that the student's mind during service should be concentrated on the passing of his examinations, as though they were an end in themselves. The governing bodies naturally have to look further ahead.

Pass Lists

A word should perhaps be said about the pass lists of the examinations. In this, I can, of course, only speak for my own Institute, though I am sure what I say is common to us all. The proportion of successful candidates at any particular examination has in recent years been lower than normal, but this, we feel, is due to special circumstances, in particular, the legacy of the war with the difficulties of study encountered in taking examinations at an older age than desirable, and possibly whilst married. Many failures try again and again with the result that their numbers swell the failure percentage. It must also be admitted that a certain number of young men have been induced to enter the accountancy profession – and no doubt the same applies to other callings – who were not fully fitted for it but who were attracted by the 'further education' grants of the Government. I say this in no sense as criticizing that well-intentioned scheme, but as one of its natural consequences. The number of students who pass the examination at their first attempt is much higher than the published pass lists would indicate.

In no instance, so far as I am aware, have the examinations ever been on a competitive basis, namely with intent to keep the membership of the different bodies at preconceived figures.

Post-examination Problems

It will be clear from what I have said that after his Final examination, even if the student decides that his future is to be in commerce or industry, he would be well advised to stay for two or three years in a professional office. He will there gain experience in a more responsible position than was possible to him during his examination period. This is specially true in the case of wartime students.

When that stage is passed, the qualified man will

then make his choice. According to his circumstances he will be influenced as to whether to take the long view or the short view. Taking the latter alone, he will probably find that the remuneration offered in industry is more attractive than that which he could get in the professional field. If free to make his choice, however, he will be influenced by other considerations also, such as whether he prefers a professional career and dealing with the affairs of others, or whether he would rather feel that he was more closely in touch with industrial production and with material things. He will consider the relative advantages of hoping to be a principal on his own or being an officer, however exalted, in industry or government.

He will also largely have in mind the differing tax and pension considerations which apply as between professions and industry.

Whether the young qualified accountant stays in the profession or goes into industry, he can in either of those spheres, if he wishes, decide to specialize. I have in mind not so much specialization in the professional sphere on taxation, trust work, etc., as specialization in costing and in management.

These two are vast subjects and they are, of course, touched upon in the normal training and examination of a professional accountant. It would, however, be idle to pretend that the syllabus of the professional bodies could be extended to cover fully training and examination in them. There just would not be time for students to absorb all that would be required, in addition to the fundamental subjects to which I have referred.

I say this because I am very conscious that the professional accountant must keep abreast of the requirements of industry in matters such as management, costing, financial forecasting, etc. My own view, however, is that although the rudiments of these subjects are learned during the period of training of the professional accountant, if he wishes to make them his main job in life he should specialize in them after taking his ordinary accountancy qualification. He will then find it comparatively simple to build on the foundation which he has already acquired.

Whether he finally decides to stay in public accountancy or to specialize in some particular branch of it, or to go out into commerce, he will understand the advantages as well as the limitations of accountancy and this will stand him in good stead.

WEEKLY NOTES

Dividend Confusion

The White Paper[1] on dividend control which we discussed in a leading article last week has already received one correction. The minimum limit of £10,000 which applies to an 'existing company', i.e. to a company which, before July 27th, 1951, had completed two accounting periods for which final dividends had been declared, is also to apply to new companies, in addition to the 7 per cent limit. This is announced in a letter sent by Sir Wilfred Eady, G.C.M.G., K.C.B., K.B.E., to Mr J. H. Keeling, the chairman of the Issuing Houses Association. The letter was in reply to an inquiry by Mr Keeling on another aspect of the White Paper. He wanted to know whether companies which had issued additional ordinary shares for cash in the last two years were entitled to take these additional ordinary shares into account in computing their maximum dividend. Sir Wilfred confirmed that they were. He did not qualify this statement by any reference to the date at which the new shares are issued, but according to the White Paper, new capital is to be proportionately reduced for the purpose of dividend limitation if it was not in fact available for dividend throughout the accounting period in question. He did stress that it was only the nominal amount of the shares which was to be taken into account. Share premiums, although for most purposes they are the same as ordinary share capital, are disregarded for dividend control purposes. Sir Wilfred prefaced his letter with a warning that the Treasury could not forecast the effect of the legislation in the form in which it would reach the Statute Book, what it could do at this stage was to indicate the inferences which could reasonably be drawn from the White Paper. Presumably the point about the £10,000 limit is an exception to this, for it could not be said to be a reasonable inference from the White Paper in its present form.

[1] H.M.S.O. Cmd. 8318. 3*d* net.

Retirement Benefits and Taxation

One of the bodies which have submitted evidence to the Millard Tucker Committee on the Taxation of Retirement Benefits is the Association of Superannuation and Pension Funds. Its evidence is confined to pension schemes for which relieving provisions already apply, leaving the special problems of the self-employed and controlling directors to other witnesses, although it expresses itself to be in complete agreement with the general principle involved in their case. The Association recommends that not merely ordinary annual contributions to an approved fund be allowed, but also all contributions within reasonable limits, the allowance for lump sum contributions being either allowed in the year of payment or reasonably spread over a number of years. It suggests that full tax relief be given on contributions to an approved fund up to 15 per cent of the contributor's salary provided that the maximum pension cannot exceed two-thirds of the highest salary, or £400, whichever is the greater. Lump sum payments on retirement should be allowed in pension schemes, not exceeding, say, £500 or one-quarter of the value of the whole retirement benefit, whichever is the less. The recipient would pay tax on this, not at the standard rate but either

at a quarter of it or at a special rate to be determined by a formula designed to avoid too heavy a burden. The Association points out an anomaly under which compulsory contributions to a widows' and orphans' scheme rank for relief under the life assurance relief provisions, normally at one-half the standard rate, while merely voluntary contributions to an approved fund may rank as a deduction from assessed income.

Annuities arising on the death of a contributor should not be aggregated with his estate for the purpose of computing the rate of estate duty. Proposals are made for the modification of P.A.Y.E. arrangements in the case of contributors and pensioners, and the Association would also like to see the issue of guidance notes by the Inland Revenue on their practice in interpreting the various provisions which grant relief. It suggests that the issue or amendment of such notes be preceded by consultation with interested bodies. Finally the Association urges that changes should not be retrospective nor prejudice existing beneficiaries of retirement schemes.

F.B.I. on Dividend Control

Such strong words as 'negative' and 'irresponsible' are used in a statement issued last week by the Federation of British Industries on the limitation of dividends as proposed by the Government. The Federation is not given to expressing itself usually in such trenchant terms, so it can be taken that its council and directorate feel particularly strongly on the matter.

The Federation considers that dividend limitation is an effort to deal only with a few symptoms of the disease. The disease is the sustained pressure on the supply of goods, a pressure that cannot be absorbed owing to the conflicting claims of exports, defence, and the home market. This inflationary pressure, the statement goes on to say, is working itself out by putting an intolerable strain on the country's balance of payments position and by raising prices in the home market. Higher production and lower consumption provide the only remedy in the opinion of the Federation.

It is also concerned by the effect of the Government's present prescription on the flow of capital to industry and by the size of profits after taxation which have to make a major contribution towards financing industry.

German and Dutch E.P.U. Quotas

Last week-end, following discussions at Ministerial level within O.E.E.C., the German and Dutch quotas under the European Payments Union scheme were increased substantially. Both these countries had been running very large deficits earlier in the year. The German position has caused most concern at O.E.E.C., and there has, in fact, been a noticeable improvement in that country's external position in the last few months. The Dutch have been running a large adverse balance with the Belgians, who correspondingly have accumulated a large E.P.U. credit. The danger was that in both cases, unless some steps were taken to extend the line of credit, the time might come when the two countries might have to settle their international balances 100 per cent in gold – an eventuality which E.P.U. with its complicated system of graduated credit and gold quotas was intended to mitigate.

Controlling Spending of Public Funds

The fourth report of the Committee on Public Accounts (H.M. Stationery Office, *1s 3d*), which was issued last week, raises some important points on the general control of the expenditure of public funds. The Committee agrees broadly with the contention of the Treasury that the present division of responsibility between itself and accounting officers in other departments in the matter of surveillance of expenditure is sound. They are less sure that there is not scope for improvement in the method of control.

The present system of control, which was devised and subsequently modified from time to time, was set up for controlling expenditure of Government departments where the Treasury can exercise a fairly close scrutiny of estimates and expenditure, where there is direct Ministerial responsibility, and where the usual Government system of a vote or subvention is in operation. The system was not devised for nationalized industries or for trading by State-sponsored undertakings.

Chapter and verse are given by the Committee in their report, where they call attention to the growth of administrative overheads in the hospital service and to some rather remarkable business propositions launched by the Colonial Development Corporation.

It is quite clear from the report that some State trading organizations and the operation of many kinds of State-owned undertakings would benefit greatly from an improvement of the quality – not the quantity – of control, and that much of that quality could be imparted by using well-tried commercial accounting techniques.

Activity in Shipbuilding

A new record was set up in the shipbuilding yards in the second quarter of this year when tonnage on the order books stood at 5¾ million gross tons. Some two-thirds of this impressive accumulation of business has still to be laid down and about one-third of it is for export.

Something like 58 per cent of orders is represented by tankers, a specialized form of tonnage which more than anything else has helped to keep the yards generally prosperous over the last few years. There is now evidence, however, that a better balance is being obtained for there is a noticeable recovery in orders for cargo vessels. Some of this change has been due, no doubt, to economies and improvements at the yards which have brought lower costs, and a better use of manpower (on the other hand, fixed contracts have now been abandoned which enables shipbuilders to pass rising costs on to the shipping lines).

FINANCE AND COMMERCE

Having survived the worst of the immediate reaction to the Government's dividend limitation proposals, stock markets have become idle and thin. This state of affairs must be expected to continue until the uncertainty over dividend limitation is removed and until it becomes possible to take a decided view on future prospects.

Opportunity Knocked

What a terrific thrill there was thirty years ago in making a wireless receiver! From crystal-catwhisker-phone to one-valve amplifier and multi-valved ganged-condenser sets, the devotee went on, his enthusiasm fanned by the several weekly journals that with constantly better and better circuits kept up the fever of the amateur constructor.

Mr E. Kirkham Cole quickly turned professional. He found that with his wife's assistance, he could make, and sell for £6 10*s*, small two-valve sets with batteries and headphones, and average six sets a week. Batteries were a bother. How much better the 'Ekco' eliminator which gave 'H.T.' and 'L.T.' from the electric mains. From that point was built the organization whose Silver Jubilee accounts are reprinted this week. The present company was formed in 1926 with a capital of £2,500. Assets now exceed £3¼ million.

One might say that the company has been fortunate. Much money has been lost as well as made in the radio industry. But as in most spheres of life, good fortune has to be earned. So much depends on how one accepts the opportunity to earn it.

Sale Difficulties

One sometimes sees in the Press an announcement by the board of a company that negotiations have taken place for the sale of the business in whole or part. Weeks pass without further news and there is a tendency to blame the directors for not producing something out of the hat.

The experience of the board of Wilkes Berger Engineering Co Ltd, however, shows what slip there can be 'twixt cup and lip. In this case, negotiations for the sale of a subsidiary, opened in mid-1950, finally proved abortive at the end of the year. 'At no time during these negotiations,' states Mr M. M. Berger, the chairman, 'had we any reason to believe that the purchasers were not of substance and in earnest.' Satisfactory references were obtained and the board were referred to 'eminent legal and accountancy advisers' who were acting on the intending purchasers' behalf. The point was reached where the directors submitted a draft purchase and sale agreement based on previously agreed terms but after considerable delay it became evident that they were unable to complete the agreement.

This experience unfortunately involved the subsidiary in a trading loss of £13,803 which could have been avoided, it is stated, had not the directors maintained the organization, at the prospective purchaser's specific request, at a higher level than would otherwise have been necessary.

Tanning Profits

The effect of inflation on the leather industry is seen in the accounts to March 31st last presented by William Walker & Sons Ltd. Group trading profit before taxation, depreciation, etc., is up from £576,078 to £935,657, but almost the whole of this increase, the chairman, Mr Roger Walker, emphasises, is a replacement margin and not a trading profit. Yet it is the figure, he adds, on which taxation is based. Consequently, the directors feel it wise to keep the distribution on the ordinary capital at 10 per cent.

Tanning is a long process, Mr Walker points out, and the majority of hides have to be imported so that many months elapse from the purchase of hides to the sale of the leather. At the date of the accounts, there were commitments outstanding for hides, skins and tanning materials not yet received totalling £829,502. As the liability, due to today's price levels is a heavy one – it makes up a quarter of the balance sheet total – the directors have been advised by the company's accountants to bring the figure into the balance sheet. The item is placed under sundry creditors and on the other side, stock-in-trade is up from £1,120,312 to £2,276,069.

Leather Pricing

Mr Walker urges upon shareholders the need to realize 'the fundamental significance and the effect of the world-wide necessity in our trade to price one's leather in relation to the price of hides at the time the leather is to be sold'. If the prices obtained by selling goods are not sufficient to replace those same goods, he says, then no matter what a firm's books may show at the end of the year, there is, in fact, a capital loss.

By selling on a replacement basis on a rising market, as was the experience during the year under review, Mr Walker continues, profits are inflated, while on a falling market, profits are deflated. Taxation of the enhanced margins, he says, takes working capital away from industry.

Mr Walker comments that in America, Germany and certain other countries, stock is regarded as working capital, the valuation of which is on a fixed basis. As it is, the auditors, he says, have advised the board to provide the very substantial sum of some £504,000 for taxation which the accounts show to consist of £378,657 for income-tax and £125,500 for profits tax.

Money Market

Applications for Treasury bills on August 2nd totalled £365,630,000, an increase of £23 million on the previous week, with the result that the market's allocation of bills was reduced from 53 to 50 per cent of requirements. The average rate was 10*s* 2·56*d* per cent. This week's offer is increased to £260 million.

E. K. COLE LIMITED

Balance Sheet as at March 31st, 1951

March 31st, 1950 £	Capital:	Authorized £	Issued and Fully Paid £
	5½ per cent First Cumulative Preference Stock Units of £1 each	250,000	250,000
	7 per cent Cumulative Participating Preferred Ordinary Stock Units of £1 each ..	200,000	184,480
	Ordinary Stock Units of 5s each	450,000	202,064
636,544		£900,000	636,544
	Revenue Reserves:		
400,000	General Reserve	500,000	
40,194	Reserve for Contingencies	43,258	
—	Reserve against Overseas Investments ..	30,000	
—	Reserve for Employees' Supplementary Pensions	40,000	
162,863	Profit and Loss Account	129,043	
			742,301
1,239,601			1,378,845
—	**4¾ per cent Unsecured Loan Stock, 1956–1960**		400,000
85,000	**Future Taxation,** Schedule D, Payable January 1st, 1952		200,000
53,058	**Sundry Provisions**		53,555
1,377,659			
	Current Liabilities:		
925,740	Creditors and Accrued Expenses, less Provision for Discounts	1,052,240	
122,947	Taxation – Income Tax, Schedule D, and Profits Tax outstanding	193,547	
62,229	Bank Overdraft	—	
16,380	Proposed Final Dividends, less Income Tax	18,818	1,264,605
1,127,296			
£2,504,955			£3,297,005

ERIC K. COLE
E. B. WILLCOCKS } *Directors.*

March 31st, 1950 £	Fixed Assets:	Cost to March 31st, 1950 £	Additions less sales at Cost £	Total Depreciation £	Balance at Cost, less Depreciation £
185,940	Freehold Land and Buildings	285,864	25,927	112,652	199,139
130,062	Plant, Machinery and Motor Vehicles ..	424,348	36,912cr.	275,290	112,146
12,381	Furniture, Fixtures and Fittings ..	91,024	2,225	78,140	15,109
328,383		£801,236	£8,760cr.	£466,082	326,394
1	**Patents, Goodwill and Trade Marks**				1
	Subsidiary Companies:				
230,073	Investments at Cost				10,100
	Trade Investments at Cost less amounts				
13,501	written off				167,590
571,958					504,085
	Current Assets:				
839,933	Stock and Work in Progress, as Valued by the Company's Officials, less Progress Payments			1,068,674	
306,710	Amounts Owing by Subsidiary Companies			1,021	
735,591	Debtors, less Provision for Doubtful Debts and Discounts			1,119,881	
50,763	Balance at Bankers and Cash in Hand ..			603,344	2,792,920
1,932,997					
£2,504,955					£3,297,005

The aggregate amount of Contracts for Capital Expenditure not provided for is estimated to be £62,000.

There is a Contingent Liability in respect of Outstanding Rentals on Hire Purchase Agreements.

Profit and Loss Account for the year ended March 31st, 1951

Dr.

1950 £		£	£
22,416	Directors' Emoluments including £3,000 fees		28,069
2,000	Director's Pension		2,000
12,117	Employees' Pension and Life Assurance Scheme		21,722
40,632	Depreciation		43,011
1,575	Audit Fee and Expenses		1,575
2,769	Amount Written off Trade Investments ..		—
—	Interest on 4¾ per cent Loan Stock		8,901
—	Expenses on Issue of Loan Stock		8,000
—	Discount on Issue of Loan Stock		6,000
	Taxation:		
47,000	Profits Tax, based on the profits as shown by these accounts	65,000	
85,000	Income Tax, Schedule D, 1951–52	200,000	
			265,000
94,754	Balance being Net Profit carried down ..		150,777
£308,263			£535,055

Cr.

1950 £		£	£
308,263	Profit on Trading before charging Depreciation etc., as set out opposite		535,055
8,350	Capital Profit on Sale of Fixed Assets ..	3,064	
8,350	*Less* Amount Transferred to Reserve for Contingencies	3,064	—
—	Amount Provided in Previous Accounts not now Required	30,000	
—	*Less* Amount Transferred to Reserve against Overseas Investments	30,000	—
£308,263			£535,055

E. K. COLE LIMITED

Appropriation Account for the year ended March 31st, 1951

Dr.

1950 £		£	£
7,563	5½ per cent First Preference Dividend for 12 Months to February 1st, 1951, less Income Tax		7,563
7,102	7 per cent Preferred Ordinary Dividend for 12 Months to February 1st, 1951, less Income Tax		7,102
8,891	Interim Dividend of 10 per cent on Ordinary Stock, less Income Tax		11,114
23,556			25,779
	Proposed Dividends:		
13,336	Final Dividend of 15 per cent on Ordinary Stock, less Income Tax	15,912	
3,044	Participating Dividend of 3 per cent on Preferred Ordinary Stock, less Income Tax	2,906	
			18,818
50,000	Transfer to General Reserve		100,000
—	Transfer to Reserve for Employee's Supplementary Pensions		40,000
162,863	Balance as shown by the Balance Sheet ..		129,043
£252,799			£313,640

Cr.

1950 £		£
94,754	Balance, being Net Profit brought down from Profit and Loss Account	150,777
158,045	Balance, brought forward from previous Accounts	162,863
£252,799		£313,640

Consolidated Balance Sheet as at March 31st, 1951

March 31st, 1950 £	Capital of E. K. Cole Ltd:	Authorized £	Issued and Fully Paid £
	5½ per cent First Cumulative Preference Stock Units of £1 each	250,000	250,000
	7 per cent Cumulative Participating Preferred Ordinary Stock Units of £1 each	200,000	184,480
	Ordinary Stock Units of 5s each ..	450,000	202,064
636,544		£900,000	636,544
7,320	**Excess Profits Tax Post-war Refund** ..		—
	Revenue Reserves:		
400,000	General Reserve	500,000	
40,194	Reserve for Contingencies	43,258	
—	Reserve Against Overseas Investments ..	30,000	
—	Reserve for Employees' Supplementary Pensions	40,000	
220,456	Profit and Loss Account	130,444	
			743,702
1,304,514			1,380,246
—	**4¾ per cent Unsecured Loan Stock 1956–1960**		400,000
86,005	**Future Taxation,** Schedule D, payable January 1st, 1952		204,002
53,058	**Sundry Provisions**		53,555
1,443,577			
	Current Liabilities:		
1,071,349	Creditors and Accrued Expenses, less Provision for Discounts	1,060,924	
142,304	Taxation – Income Tax, Schedule D, and Profits Tax outstanding	194,577	
62,228	Bank Overdraft	—	
16,380	Proposed Final Dividends Payable by E. K. Cole Ltd, less Income Tax ..	18,818	
			1,274,319
1,292,261			
£2,735,838			£3,312,122

March 31st, 1950 £	Fixed Assets:	Cost to March 31st, 1950 £	Additions less Sales at Cost £	Total Depreciation £	Balance at Cost less Depreciation £
197,611	Freehold Land and Buildings	285,864	25,927	112,652	199,139
194,477	Plant, Machinery and Motor Vehicles ..	426,324	36,912*cr.*	276,589	112,823
15,200	Furniture, Fixtures and Fittings ..	91,360	2,225	78,284	15,301
407,288		£803,548	£8,760*cr.*	£467,525	327,263
1	**Patents, Goodwill and Trade Marks** of E. K. Cole Ltd				1
115,005	**Excess of Cost** of Shares in Subsidiaries over Book Value of Net Assets at date of acquisition				4,500
18,501	**Trade Investments** at cost less amounts written off				167,590
540,795					499,354
	Current Assets:				
1,221,275	Stocks and Work in Progress, as Valued by the Companies' Officials, less Progress Payments			1,077,487	
921,708	Debtors, less Provision for Doubtful Debts and Discounts			1,131,270	
52,060	Balances at Bankers and Cash in Hand			604,011	
					2,812,768
2,195,043					
£2,735,838					£3,312,122

The aggregate amount of Contracts for Capital Expenditure not provided for is estimated to be £62,000.

There is a Contingent Liability in respect of Outstanding Rentals on Hire Purchase Agreements.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Accountants' Certificates

SIR, – I refer to the letter from Mr Stafford Honey on the above matter which appeared in your issue of July 28th, 1951.

It seems likely that your correspondent refers to a certificate on a form relating to an 'application for an allocation of starch and/or dextrine for non-food industrial use'. If this is so, I am able to state that I am informed by the Ministry of Food that the certificate may be dispensed with provided that the form is signed by a responsible officer of the company making application for the allocation.

The Council of this Institute is of opinion that, where an auditor is asked to sign a certificate and it is quite impracticable for him to do so for technical or other reasons, representations should be made by his clients through the appropriate trade association for the certificate in question to be withdrawn or modified. In certain circumstances it may also be desirable for the auditor to alter the wording of a certificate in order that he may be in a position to sign it.

Yours faithfully,
ALAN S. MACIVER, *Secretary*,
THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

London, EC2.

Pension Schemes

SIR, – The answer to 'Underdone's' letter – published in your issue of June 30th last – depends largely on the scale and measure of the pension. The scheme may be funded privately, computed, say, at one month's salary for each year of service, commutable in part on retirement for a capital sum and a subsequent proportionately reduced pension, or, say, on an annuity basis.

The latter provides an easy comparison with an insured scheme based on without-profit-endowment assurance. The basis of both calculations is the expectation of life of the individual, divided into two eras, (1) up to retirement, for computing the annual provision of the sum required at that stage of retirement (fifteen years, twenty years, etc.); (2) after retirement, for computing the annual expending of the sum provided. This can most easily be done by periodic actuarial valuation, the pension fund being adjusted annually to agree with the total liability as shown by the valuation.

The root of the comparison, however, is that a private 'fund' either retains the capital in the business, merely reserving suitably out of profits, or is a fund proper, equalling a holding of investments, on which interest is gained. Without-profit-endowment assurance, on the other hand, is in effect paying an insurance concern to take the risk of the pension liability proving greater than the instalments received; it earns no interest and takes the moneys involved out of the business.

There is no element of fantasy in an actuarial valuation, but the comparative costs of the two methods suggested may easily be obtained by applying the above principles to the facts, viz. the cost of the endowment assurance as compared with the same cost less either (*a*) the annual rate of profit earned by the business and apportioned to that sum, or (*b*) a stable investment yield obtainable on such a sum.

Yours faithfully,
Colombo, Ceylon. J. S. THWAITES.

Sales Records

SIR, – The article 'A sales record study: the Sale of Goods Act, 1893, and the auditor', by Mr Fredk. A. Roberts, A.S.A.A., published in your issue of May 26th, 1951, was without question a most lucid and interesting paper on the manner in which sales should be accounted for to comply with the provisions of the Sale of Goods Act, 1893.

There is a corollary to the recording of sales upon which Mr Roberts' opinion is solicited. What treatment should be given by the customer to expenditure incurred before the end of the accounting period in acquiring machinery purchased abroad for capital additions, the supplier having received the sales-price f.o.b. port of shipment? The packing, ocean freight and insurance to be recovered later by the seller from the customer, the goods not having been actually embarked by the supplier for shipment prior to the close of the financial year.

Under the provisions of the new Finance Act, the initial allowance of 40 per cent for income-tax purposes is suppressed. Should such a transaction as visualized above occur during the present income-tax period, the purchaser would in most cases prefer to take up the expenditure as an addition to the plant account and not as a prepayment.

Your obedient servant,
F.

[Mr Fredk. A. Roberts, A.S.A.A., writes: At the close of the accounting period of the purchaser, the legal property in the machinery remained in the supplier because the goods had not been placed on board by him: therefore it would be quite wrong to include it as an addition to machinery. The purchaser should treat the payment for the machinery under a balance sheet caption such as 'payment in respect of machinery to be supplied after date'.

There is little doubt that not infrequently payments of the character to which your correspondent refers are debited to the personal account of the supplier in the bought ledger and resultantly included under the heading of 'debtors' in the balance sheet.

The receipt of sums by a party in respect of goods to be supplied by him does not bring him into debtor relationship with his customer: the customer has no right of repayment unless and until the supplier is in breach of contract. Under no circumstances should the amount of this type of payment be included under 'debtors': to include it is to ignore the legal position and to misrepresent the liquid position of the concern.

In examining the taxation position the question of initial allowance is governed by Section 15 (1), Part II, Income Tax Act, 1945, which reads:

'Where, on or after the appointed day, a person carrying on a trade *incurs capital expenditure* on the provision of machinery or plant for the purposes of the trade, there shall be made to him, for the year of assessment in the basis period for which the expenditure is incurred, an initial allowance. . . .'

It is clearly the incurring of the expenditure which creates the right to claim an initial allowance.

Section 64 (2), Part VIII, Income Tax Act, 1945, is in these terms:

'Any reference in this Act to the date on which expenditure is incurred shall be construed as a reference to the date when the *sums in question become payable*.'

Your correspondent can therefore claim an initial allowance in the year immediately following that of the basis year in which the amount paid to the supplier became payable. One may, of course, meet the case in which an amount paid in one year became payable in a previous year.

As to the annual allowance, Section 16 (1), Part II, Income Tax Act, 1945, requires that the machinery must be in use. While the machinery remained in the possession of the supplier abroad it was certainly not in use by the purchaser.

The circumstances stated by your correspondent exemplify that the right to an initial allowance may accrue to the taxpayer before the right to an annual allowance: moreover, that there may be a right in the taxpayer – as there is in this case – to claim an initial allowance in respect of machinery and plant before the legal ownership in it passes under the contract of sale to the purchaser.]

Never a Mother

SIR, – Thanks are due for your leading article in your issue dated July 28th last entitled 'The Royal Commission'.

You are startled by the fact that the issue of six family allowance books can constitute a clerk's whole working day. You are surprised to find the Inland Revenue devoted and anxious in regard to matters which might have been expected to be outside its province.

May I remind you that devotion and anxiety are sensations which many a mother knows, as she protects her teeming family from the perils of full production? In my opinion, your leading article practically proves that you have never been a mother.

Yours faithfully,

Bromley, Kent. B. KENNETH FLETCHER.

'Wet Water'

SIR, – I would not normally venture to take part in a discussion on 'cost', for it is a subject that can be full of pitfalls for the unwary.

May I, however, add my mite to the knowledge for which all good accountants thirst, by assuring Mr H. A. Briscoe (issue July 28th) that the expression 'wet water' is a fairly common phrase, especially in circles connected with fire-fighting? It is used to indicate water to which a chemical agent has been added so that it wets more thoroughly. A duck floats only with difficulty in wet water.

May I suggest that perhaps 'historical cost' may have an accepted meaning amongst those accountants who prefer to use the phrase?

Yours faithfully,

J. R. HARKER, F.C.A. *Secretary,*
London, EC4. FIRE PROTECTION ASSOCIATION.

Bakers: Profit Percentages

SIR, – Could any readers supply me with gross and net profit percentages of bakers? The figures required for gross profit are sales less materials only (no wages), and the net profit, arrived at after charging all expenses (including depreciation, proprietor's remuneration on a commercial basis, and interest at 5 per cent on capital employed except as far as represented by goodwill).

The particular type of business in mind is that of a country baker, turnover £10,000 to £15,000 per annum, where practically all sales are by motor delivery, counter trade being negligible.

Yours faithfully,

E. A. C. A.

The Qualified Accountant in Industry: A Suggested Supplementary Course

SIR, – I should like to support Mr Rose's plea (in the correspondence columns of July 21st issue) for adding a specialized course in industrial accountancy to the training of professional accountants who intend to take up a career in industry.

Interest in the uses of accounting for management has been stimulated by the recent report and lecture tour of the team who visited the U.S.A., to study American methods, and many industrial accountants are beginning to realize that they should be giving better service to management. Unfortunately, many of them find it difficult to change their existing methods because they have not had the experience of producing monthly accounts and control statistics quickly. The difficulties of doing this seem greater in their minds than the benefits to be derived.

A large proportion of qualified accountants are now employed in industry, and many of them are given executive posts of importance, straight from the profession without having had any experience in the practical work of industrial accounting or the management of an often large mixed staff.

One solution is in the hands of industry, and that

is to take on young qualified men and train them in the various branches of industrial accounting work, just as a promising engineer trainee is trained in the various shops and production control organization. A further help would undoubtedly be to institute a training course, as Mr Rose suggests, and if the professional bodies would agree to treat this as an optional subject in the examination syllabus it would provide the stimulus required. Surely an understanding of the needs of industry is of more importance and universal application than a knowledge of bankruptcy, law or executorship? There is little doubt that a number of industrial accountants with experience would gladly co-operate in starting a course.

Yours faithfully,

London, SW15. J. N. STEPHENS, A.C.A.

Income from Investments

SIR, – In reply to your correspondent of July 28th issue, it would appear that not to show the income from investments separately is a definite breach of the Companies Act – see Eighth Schedule, Part I, paragraph 12 (*g*).

In regard to the market value of quoted securities, there seems to be a wide divergence of opinion in the accountancy profession on this point. The Companies Act itself does not, as is often imagined, adequately cover this point, as the operative word in regard to comparative figures in the Eighth Schedule, Part I, paragraph 11, subsection (11) is the word 'items'. The argument can be, and often is therefore, advanced that the market value of investments is shown on the balance sheet as a note and as such the comparative detail need not be shown. Holders of this point of view interpret the word 'items' as relating only to the actual figure forming part of the double entry.

It would seem, therefore, that your correspondent is quite correct when he assumes that there is no remedy in the Eighth Schedule for this omission and looks for the answer in the light of a 'true and fair view'.

Some eighteen months ago I had occasion to investigate this very point and did so by obtaining a selection of accounts of investment companies. The different methods of treatment of this point proved to be rather curious.

Over half of the twenty balance sheets obtained bore no comparative figures at all for market values, others gave comparative figures for the total investments, others only for the quoted investments, and some gave comparative details of market values for all three classes of investment, i.e. 'quoted', 'quoted on exchanges outside United Kingdom', and 'unquoted'.

Nevertheless, in spite of this lack of uniformity of treatment, I would suggest that, where such vital figures are omitted, especially where the investments have considerably fluctuated in value (either up or down) that the balance sheet does not show a 'true and fair view'.

Surely it must be of vital interest to any shareholder to know whether the market values of investments have increased or diminished. Admittedly, they may not be the same investments, but their relation to the cost price (the comparative figure for which is no doubt given) is of definite importance to a shareholder. This applies equally whether it is an investment or a trading company.

Yours faithfully,

Brighton, 6. C. L. METCALFE.

Orthodox Profits

SIR, – I would like to reply to Mr John P. Bibby's letter in your issue of July 28th, 1951. His approach to the subject of the effect of inflation on the calculation of profits is essentially practical, and for that reason I feel that further discussion may achieve results. I have read his booklet *A Plea for Some Reform in the Conventional Method of Computing Profits*, and in my article published by you on July 7th, 1951, I accepted his case but endeavoured to show on broader grounds that it was not fair.

To Mr Bibby the point at issue is quite simple – what information does the industrialist want from his profit and loss account? There being no more to it than this, how, he asks, can any question of equity or social justice arise.

If this is all there is at issue, then I agree with him that it is a purely domestic matter and he can please himself, but in his booklet he goes further, for he points out that the profit and loss account is used as one of the agreed bases for discussion of wage rates, and for arriving at a fair margin to give to industrial concerns where government controls prices.

I agree with Mr Bibby that the final result of each business venture is determined by haggling in the market place, using that term in its widest sense, but I maintain that the method of presenting interim annual results can be used as one of the counters in the game, influencing the rate of wages and the price of the product and thereby affecting the return business men finally get for their ventures, spread maybe, over fifty years or more.

I am trying to persuade my fellow accountants that they must stand aside in the market place, resisting the temptation to enter into the game. The only way they can do this is to carry forward outlay on assets strictly in proportion to the life which remains to those assets, revising their estimate of that life when necessary as the future unrolls.

I tried to show in my article that this way is adequate for the needs of the community, that it is true *and* fair, and I maintain that if we depart from it we shall jeopardize our hard-won reputation for integrity, justice and fairmindedness. We are not concerned with how our results are used, or their effect on the market, but to hold the scales of justice once we have decided what is true and fair.

Mr Jeffery English, in his well-worked-out article

'Another view on orthodox profits', published in your issue of August 4th, 1951, displays a clear-cut mind and if he could be persuaded to apply it to the broader issues involved he would be well rewarded. Like the man who had been speaking prose all his life without knowing it, he would have us believe that in adopting replacement cost accounting we are but carrying out orthodox rules after all and never realized it. This I submit is but to avoid the issue.

Any adventure abroad, from the opening up of the enterprise until it is finally closed down, involves the paying out of sterling and the receipt of sterling, the difference between the two being profit. Foreign branch accounting is concerned to see that interim profits disclosed are in line with this final profit and does so without repercussions on our internal economy, but when the principle is applied at home, problems arise towards the solution of which I hope Mr English will give us the benefit of his acute mind.

Yours faithfully,

H. A. BRISCOE.

King's Norton, Birmingham.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

In re Batley

In the Court of Appeal – March 8th, 1951

(Before Lord Justice COHEN, Lord Justice SINGLETON and Mr Justice DANCKWERTS)

Income-tax – Annuity – Alimony paid by testator – Annuity bequeathed as a continuance of alimony – Whether annuity free of tax – Income Tax Act, 1918, *General Rules* 19, 21.

The testator had, up to the date of his death, been paying alimony to his former wife at the rate of £8 a week, free of tax, by four-weekly payments of £32 each. By his will he bequeathed to his former wife an annuity of £416 a year,

> 'such annuity to be considered as a continuance of the alimony which I am paying to her during my lifetime, and to be paid to her at the rate of £32 every four weeks in this way thus continuing after my death the payments of alimony which I am making to her during my lifetime'.

The will went on to declare that if, at any time during the life of his second wife, the annuity should exceed one-third of the total income of the estate after payment of income-tax, the amount of the annuity was to be one-third of that total income.

Held, that the references in the will to the alimony, and the references to the annuity as a continuation of the alimony, and the expression of the alternative amount as 'one-third of the total income of my estate after payment of income-tax', showed that the annuity was intended to be paid free of tax.

Bernard and Shaw Ltd *v.* Shaw

In the High Court of Justice (King's Bench Division) June 7th, 1951

(Before Mr Justice LYNSKEY)

Income-tax – P.A.Y.E. – Failure to deduct tax – Tax claimed from employer – Whether employer entitled to recover from employee – Income Tax (Employments) Act, 1943, *Section* 1 (1), (2) – *Income Tax (Offices and Employments) Act,* 1944, *Sections* 1 (1), 2 – *Income Tax (Employments) Regulations,* 1950, *Regulation* 52 (2).

The company paid remuneration to one of its employees without deducting income-tax under the P.A.Y.E. regulations. The Inland Revenue claimed from the company payment of the tax that should have been deducted, and the company claimed to be entitled to recover an equivalent amount from the employee.

Held, (1) that the company could not recover the sum in question from the employee as money had and received by him to the company's use, as the tax had not in fact been paid,

(2) the company could not recover the sum in question as money paid under a mistake of fact, as the failure to deduct tax was due not to a mistake but to a breach of the company's obligation to make deductions under the P.A.Y.E. regulations,

(3) the company was not entitled to recover against the employee on the footing that the latter was a trustee of the sum in question, and

(4) that the company's remedy was to make deductions from subsequent payments of remuneration to the employee.

Napier *v.* National Business Agency Ltd

In the Court of Appeal – June 7th, 1951

(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice DENNING and Lord Justice HODSON)

Income-tax – Service agreement providing for salary and expenses – Amount of expenses known to be excessive – Intention to mislead Inland Revenue – Whether employee entitled to enforce payment of salary – Income Tax (Employments) Regulations, 1944, *Regulation* 7.

The plaintiff entered into a service agreement with the defendant company to act as secretary and accountant at a salary of £13 a week, with £6 a week for expenses. Both parties were aware that the plaintiff's expenses could not amount to £6 a week, and the expenses did not exceed £1 a week. Income-tax under P.A.Y.E. was deducted from the salary, and in returns to the Inland Revenue the £6 a week was

indicated as a reimbursement of expenses. The plaintiff was dismissed from his employment, and claimed salary in lieu of notice based on the £13 a week.

Held, that the service agreement in relation to the expenses was intended to mislead the Inland Revenue and to evade income-tax, and was, therefore, contrary to public policy and unenforceable; and that the plaintiff could not enforce the provisions of the agreement relating to the salary, as those provisions were not severable from the rest of the agreement.

In re Payton, *In re* Austin Motor Co Ltd

In the Court of Appeal – July 2nd, 1951

(Before the MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord RADCLIFFE and Lord Justice DENNING)

Estate duty – Pension scheme – Insurance policies providing pension – Option to obtain pension for wife – Whether wife's pension continuing pension or separate one – Whether continuing proprietary interest – Aggregation – Finance Act, 1894, *Sections* 1, 2 (1) (*d*), 22 (1) (*b*).

The company took out two group pension policies in favour of the deceased, and under each policy there was an option whereby the deceased was entitled to take a pension in a similar amount, and to obtain a pension for his widow. The deceased exercised the option, so that he received a smaller pension during his lifetime, and after his death a pension in the same amount was paid to his widow.

The policies provided in each case that the grantee, the company, was to hold the policy and all its benefits on trust for the respective persons to whom the benefits were expressed to be payable, and the company had no beneficial interest in the policy except in respect of its surrender value. As soon as the employee became entitled to the benefit of the policy, the insurance society gave him a certificate to the effect that he was so entitled. The society, bound itself to pay 'the appropriate benefit or benefits as and when the same shall fall due' to the person or persons specified in the schedule to the policy.

The Inland Revenue contended that the pension was a continuing pension, which passed to the widow on the death of the deceased under Section 1 of the Finance Act, 1894; and that, therefore, the value of the pension had to be aggregated with the rest of the deceased's estate in order to ascertain the principal value thereof.

Held (affirming the judgment of Mr Justice Wynn-Parry), that the policy provided, in the event of the exercise of the deceased's option, for two pensions, one for the deceased during his lifetime, and the other for his widow; that, therefore, there was no passing of property under Section 1 of the Act; that an annuity was provided by the deceased within the meaning of Section 2 (1) (*d*), but that he never had an interest in it and accordingly that aggregation was not competent.

Dale *v.* C.I.R.

In the High Court of Justice (Chancery Division)

July 4th, 1951

(Before Mr Justice HARMAN)

Special contribution – Remuneration – Legacy of annual payment to trustee of charity – Performance of duties by trustee – Whether annual payment earned income – Whether investment income – Income Tax Act, 1918, *Section* 14 (3), *Schedule D, Case III, Charging Rule* 1 (*a*) *General Rule* 19 – *Finance Act,* 1920, *Section* 33 – *Finance Act,* 1922, *Section* 18 – *Finance Act,* 1948, *Sections* 47, 49, 68 (2).

The appellant was a trustee of the Wellcome Foundation, and under the will which established that charity the appellant was entitled to £1,000 a year free of tax as long as he continued to act as trustee, and was not in receipt of remuneration from the Foundation. The appellant performed onerous duties as trustee.

The appellant was assessed to special contribution on the footing that the £1,000 a year was investment income. The Special Commissioners decided that the £1,000 a year was not derived from a source of earned income, and that, therefore, it was investment income within Section 49 of the Finance Act, 1948.

Held, that the £1,000 a year was from a source of earned income, and was therefore not investment income for the purposes of special contribution.

Higgs *v.* Olivier

In the High Court of Justice (Chancery Division)

July 11th, 1951

(Before Mr Justice HARMAN)

Income-tax – Actor – Covenant not to appear in film – Lump sum paid therefor – Whether part of receipts of profession – Income Tax Act, 1918, *Schedule D, Case II.*

In September 1943, the respondent entered into a contract to produce the film 'Henry V', and during the currency of the agreement, i.e. until September 1944, the respondent was to devote his whole time to the film company's service. The respondent rendered these services, and was paid a certain sum therefor.

The film was produced at Christmas 1944, and at first it succeeded only slowly. In July 1945, in order to promote its success the respondent entered into another agreement with the film company, whereby, in return for £15,000, he covenanted that for 18 months he would not appear in any capacity in any film for anybody other than the film company.

The Special Commissioners decided that this agreement could not be read as one with the service agreement of September 1943; that the £15,000 did not come to the respondent as a part of his income from his vocation as an actor; that it came to him for refraining from carrying on his vocation; and that it was a capital receipt.

Held, that the Special Commissioners' decision was correct.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, August 1st, 1951, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President: Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, Messrs J. S. Mackenzie, K. A. E. Moore, P. Morgan-Jones, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, E. E. Spicer, E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. G. Turner, M.C., A. D. Walker, T. Walton, Sir Nicholas Waterhouse, K.B.E., with the Secretary and an Assistant Secretary.

Readmission

One application for readmission to membership was acceded to.

Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to.

One application under bye-law 63 (*c*) for a reduction in the period of service under articles was acceded to.

Exemption from the Preliminary Examination

Three applications under bye-law 79 for exemption from the Preliminary examination were acceded to.

Exemption from the Intermediate Examination

One application under bye-law 85 (*b*) for exemption from the Intermediate examination was acceded to.

Three applications under bye-law 85 (*a*) for exemption from the Intermediate examination were acceded to.

Examination Results - May 1951

The Examination Committee reported the results of the examinations in May 1951 as follows:

	Passed	*Failed*	*Total*
Preliminary	73	187	260
Intermediate	502	566	1,068
Final	528	605	1,133
	1,103	1,358	2,461

The following prizes and certificates of merit were awarded:

Preliminary

First in Order of Merit and the Institute Prize
D. West (Chorley).

Intermediate

First Certificate of Merit, the Institute Prize, the 'Frederick Whinney' Prize and the 'Plender' Prize for the Book-keeping and Accounts (Executorship) Paper
C. D. Holt (J. F. Venner), London.

Second Certificate of Merit, the 'Stephens' Prize and the 'Plender' Prize for the General Commercial Knowledge Paper
T. A. Tansley (J. B. Pinnock), Bedford.

Third Certificate of Merit, the 'Plender' Prize for the Book-keeping and Accounts (Limited Companies) Paper.
R. E. Chancellor (T. B. Robson), London.

Fourth Certificate of Merit
T. A. J. Webster (G. T. E. Chamberlain), Leicester.

Fifth Certificate of Merit, the 'Plender' Prize for the Auditing Paper
I. S. S. Ferris (L. J. Osmond), London.

Sixth Certificate of Merit
B. P. Aungiers (K. C. Foster), London.

'Plender' Prize for the Book-keeping and Accounts (Partnership) Paper
C. F. Horton (W. T. Hunter), Maidstone.

'Plender' Prize for the Taxation and Cost Accounting Paper
A. L. Mann (E. L. Becker), Southport.

Final

First Certificate of Merit, the Institute Prize, and the 'Walter Knox' Scholarship
D. E. Cox (J. Fawcett), Grimsby.

Second Certificate of Merit
D. J. Ironside (A. E. M. Harbottle), Bristol.

Third Certificate of Merit
B. W. Sutherland (C. H. Hogg), Nottingham.

Fourth Certificate of Merit, the 'W. B. Peat' Medal and Prize
J. E. Sargent (R. G. Carter), London.

Fifth Certificate of Merit
C. B. Newcomb (A. W. S. Tabbernor), London.

Sixth Certificate of Merit, the 'Frederick Whinney' Prize and the 'Plender' Prize for the Advanced Accounting (Part I) Paper
K. S. Carmichael (W. J. Corpe), Bristol.

Sixth Certificate of Merit
T. C. Backshell (H. E. Traylen), London.

'Auditing' Prize and the 'Plender' Prize for the Auditing Paper
W. R. M. Ross (H. L. Layton), London.

'Roger N. Carter' Prize
A. G. Taylor (G. Waterworth), Blackburn.

'Plender' Prize for the Advanced Accounting (Part II) Paper
A. C. Tripp (J. L. Wannan), London.

'Plender' Prize for the Taxation Paper
E. J. Gamble (E. J. G. Webb), London.

'Plender' Prize for the General Financial Knowledge and Cost Accounting Paper
D. L. H. Gosden (C. R. P. Goodwin), Brighton.

'Plender' Prize for the English Law (Part I) Paper
F. J. Guppy (M. W. Burrough), Bridport.

'Plender' Prize for the English Law (Part II) Paper
J. D. H. Mellor (J. M. Freeman), Newbury.

Practice while Serving under Articles

An application under bye-law 57 from an articled clrek for permission to practise while serving under articles was acceded to.

Mr George R. Freeman

The Council recorded its great appreciation of the services rendered by Mr George R. Freeman to the Examination Committee to which he was appointed in 1915 and on which he had served continuously up to 1951, having been chairman from 1922 to 1931 and a moderator from 1922 to 1947.

Planning Committee

It was resolved:

(a) That the Planning Committee had now served the purpose for which it was established in 1945 and that accordingly it be dissolved.

(b) That the Council was impressed by the considerable volume of work which had been carried out by the Planning Committee which was much to be congratulated on its record.

Autumnal Meeting: Mr Derek du Pré

The Council noted with pleasure that Mr Derek du Pré had kindly consented to act as Honorary Public Relations Officer in connexion with the Autumnal Meeting of the Institute to be held at Torquay in October 1951.

Students' Societies

The Council approved the issue of a pamphlet on *The Place of the Students' Societies in the Education of Articled Clerks*, for the guidance of the committees of the chartered accountant students' societies and the information of the committees of the district societies.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following thirty associates who have commenced to practise:

Ashill, Maurice Comber; 1951, A.C.A.; Greenways, West End Gardens, Esher, Surrey.
Ashton, Edward Laurence, B.A.; 1950, A.C.A.; (Hodgson, Morris & Co), Central Buildings, 41 North John Street, Liverpool, 2.
Beaver, Leonard Harry; 1933, A.C.A. (Heathcote & Coleman), 25 Bennett's Hill, and 39 Temple Row, Birmingham, 2.
Cooke, John Hayward; 1950, A.C.A.; (Mapus-Smith & Lemmon), Hill House, 19 Tuesday Market Place, Kings Lynn, and at Downham Market.
Dixon, James; 1950, A.C.A.; Groat House, Groat Market, Newcastle upon Tyne, 1.
Eilbeck, Charles Frederick; 1922, A.C.A.; (*Pruddah Eilbeck & Co), Central Buildings, North John Street, Liverpool, 2.
Ellins, Sydney Frederick; 1950, A.C.A.; (W. B. Keen & Co), 69 Ship Street, Brighton.
Evans, Thomas James William; 1951, A.C.A.; (King, Hope & Co), 6 Dovecot Street, Stockton-on-Tees, and at Darlington, Northallerton and Richmond, Yorks.
Fossey, Kenneth Arthur; 1938, A.C.A.; (*Allan Race & Co), 27 King Street Chambers, Leeds, 1; also at Harrogate, (*T. & J. Hewitt).
Green, Michael Anthony; 1951, A.C.A.; (Thornton & Thornton), 6 Worthing Road, Horsham, Sussex.
Heywood, Frederick Alan; 1951, A.C.A.; 36 Holmhirst Road, Woodseats, Sheffield, 8.
Holland, Charles Matthew; 1948, A.C.A.; (Haskew, Twist & Co), 3 Cherry Street, Birmingham, 2.
Hollingsworth, Frederick Weatherley; 1951, A.C.A.; (*Norman Wand & Hollingsworth), Britannic Assurance Buildings, 20 Blake Street, York.
Latham, Derek James; 1948, A.C.A.; (Lowe, Towler, Latham & Co), Williams Deacon's Bank Chambers Market Street, Leigh, Lancs.
Laughlin, Herbert Desmond Blakeley; 1939, A.C.A.; (S. Graham Rowlandson & Co), 446 Salisbury House, London Wall, London, EC2.
Laux, Hector Charles; 1949, A.C.A.; (Watson Collin & Co), Transport House, Smith Square, London, SW1, and at St Albans.
Pausey, Kenneth John; 1951, A.C.A.; (K. J. Pausey & Co), 156 Shaftesbury Avenue, London, WC2.
Penfold, William; 1935, A.C.A.; 17A Reddons Road, Beckenham, Kent.
Raymond, John Gregson; 1951, A.C.A.; (Warmsley, Henshall & Co), 29 Eastgate Row North, Chester.
Redhead, Donald John; 1951, A.C.A.; 1A Austral Drive, Hornchurch, Essex.
Roberts, Robert Lunt; 1951, A.C.A.; 101 Penrhos Road, Bangor.
Roden, Stanley; 1949, A.C.A.; (Haskew, Twist & Co), 3 Cherry Street, Birmingham, 2.
Sanders, Eric Victor, D.F.C.; 1950, A.C.A.; (Watson Collin & Co), Transport House, Smith Square, London, SW1, and at St Albans.
Selby, Gerald; 1950, A.C.A.; (Gerald Selby & Co), 3 Kenneth Crescent, Willesden Green, London, NW2.
Shaw, William George; 1951, A.C.A.; (W. H. Shaw & Sons), Market Place, Dewsbury.
Simpson, Gordon Stanley; 1951, A.C.A.; 5 Westfield, Chapel Allerton, Leeds, 7.
Stokes, Geoffrey William, D.F.C.; 1950, A.C.A.; 1, Marlborough Park Avenue, Sidcup.
Sutton, George Oldman; 1947, A.C.A.; *Walter Lovatt & Co), 7 Western Road, Hove, 2.
Thurgood, James Nash; 1947, A.C.A.; (*Chalmers, Wade & Co), 24 Coleman Street, London, EC2, and at Birmingham, Liverpool, Shaftesbury, Wells, Weymouth and Yeovil.
Towler, Russell Stewart, B.COM.; 1948, A.C.A.; (*Lowe, Towler, Latham & Co), Williams Deacon's Bank Chambers, Market Street, Leigh, Lancs.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

(2) That twenty-two associates be elected to fellowship under clause 6 of the Supplemental Charter (Bye-law 31).

(3) That two associates be elected to fellowship under clauses 6 and 31 of the Supplemental Charter (Bye-law 31).

(4) That five applicants be admitted as associates under clause 9 of the Supplemental Charter (Bye-law 36).

A list of those who complete their Fellowship or Membership before August 14th will appear in *The Accountant* of August 18th.

Chairman and Vice-Chairman of Committee

The Secretary reported the appointment of the following Chairman and Vice-Chairman of the Examination Committee:

Chairman	*Vice-Chairman*
D. V. House	E. G. Turner

Nederlands Instituut van Accountants

The Council decided to ask Mr Douglas A. Clarke, LL.B., F.C.A., if he would represent the Institute at the Accountants' Yearday 1951 of the Nederlands Instituut van Accountants to be held in Amsterdam on October 6th, 1951.

Registration of Articles

The Secretary reported that 65 articles of clerkship were registered during the month of July as compared with 61 in the previous July.

Resolution Rescinded

The resolution of the Council dated November 4th, 1942, excluding Mr Philip Sidney Bayley, A.C.A., from membership of the Institute for non-payment of his annual subscription was rescinded and his name expunged from the minutes, as notice had now been received of his death in June 1942.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr John Hope Bowden, A.C.A., Surbiton.
,, John Stuart Gray, A.C.A., Cardiff.
,, Patrick Davies Hannay, F.C.A., Cheltenham.
,, Norman Leonard, A.C.A., Cheltenham.
,, Neville Lorraine Rawson, A.C.A., Leicester.
,, John Percy Tilley, F.C.A., London.
,, Gerald Henry Warmington, F.C.A., Cheam.
,, Alfred Deighton Whitaker, A.C.A., Bradford.
,, Sydney Albert Victor Wood, F.C.A., London.
,, Harold Worthington, A.C.A., Liverpool.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

DISCIPLINARY COMMITTEE

Finding and Decisions of the Disciplinary Committee of the Council appointed pursuant to bye-law 103 *of the bye-laws appended to the supplemental Royal Charter of December 21st,* 1948, *at a hearing held on July 4th,* 1951.

The committee heard formal complaints that each of 23 members had failed to pay the subscription payable by him under clause 11 of the supplemental Royal Charter and bye-law 42 in respect of the year 1951 for four months after the same had become due so as to render himself liable under clause 21 (7) of the supplemental Royal Charter to be excluded from membership or to be suspended for a period not exceeding two years from membership. In every case the committee found the complaint proved.

The committee ordered that the following five members be excluded from membership of the Institute:

Leslie Hughes, A.C.A., 113 Church Road, Yardley, Birmingham, 25.
John Arthur Maynard, F.C.A., 42 Glamorgan Avenue, Belvedere, Salisbury, Southern Rhodesia.
Gerald Leslie Whitmill Rowe, A.C.A., 29 Warwick Row, Coventry.
Vernon Stair, A.C.A., 58 Stade Street, Hythe, Kent.
George Eric Titley, F.C.A., 74 Victoria Street, London, S.W.1.

The committee ordered that four members be excluded from membership of the Institute but that, in view of special circumstances, such decision be suspended so as to take effect only as from a specified date if a remittance of the amount owing should not have been received before that date. All of the four members concerned paid the amount due within the period allowed.

The committee decided that one member be reprimanded and two members be admonished. In each of the three cases the committee considered that there existed special circumstances which justified the omission of the name of the member from the publication of the finding and decision.

The committee decided that no action be taken in the case of eleven members.

Personal

MR RUSSELL TILLETT, F.C.A., and MR DOUGLAS J. KEAN, A.C.A., announce that as from August 1st, 1951, they are being joined in partnership by Mr D. BUSSELL, M.B.E., A.C.A., A.S.A.A., and Mr E. MIDGLEY, A.C.A., both of whom have been associated with them for some years. The partnership will be continued at London, Bradford and Manchester under the title of RUSSELL TILLETT & CO, Chartered Accountants, as heretofore.

MESSRS S. W. H. PONSFORD & CO, Accountants and Auditors, of 142 High Street, Honiton, Devon, announce that they have taken over the West Country practice of Messrs RICKARD & CO, Incorporated Accountants, at 142 High Street, Honiton, and Agriculture House, Queen Street, Exeter. The practice at each branch will continue under the personal supervision of Mr S. W. H. Ponsford, A.A.I.A., F.C.C.S., who has been the local manager of Messrs RICKARD & CO for a number of years.

MESSRS WARMSLEY, HENSHALL & CO, Chartered Accountants, of 29 Eastgate Row, North, Chester, regret to announce the death, on August 1st, of their senior partner, Mr James Henshall, F.C.A. The firm is being carried on in the same name by the remaining partners.

Obituary

JAMES HENSHALL, F.C.A., A.S.A.A.

It is with regret that we record the death on August 1st, 1951, at the age of 79, of Mr James Henshall, F.C.A., A.S.A.A., senior partner in the firm of Warmsley, Henshall & Co, Chartered Accountants, of 29 Eastgate Row, North, Chester.

Mr Henshall was admitted an associate of the Institute in 1905, and joined the firm of Warmsley, Jones & Co in the same year. On his admission into partnership shortly afterwards with the late Mr F. J. Warmsley, the firm's name was changed to Warmsley, Henshall & Co, and following the death of Mr Warmsley in 1930, he became the senior partner of the firm and remained as such until his death. He was elected a Fellow of the Institute in 1940, and had been admitted an associate of the Society of Incorporated Accountants and Auditors in 1905.

Mr Henshall, who was well known in Chester and North Wales, was a director of several local companies.

British Electricity Authority Appointment

The British Electricity Authority announce that Mr Ernest Long, F.S.A.A., F.I.M.T.A., F.C.I.S., Deputy Chief Accountant (Finance) to the Authority, has been appointed Secretary of the Authority in succession to Mr H. F. Carpenter, F.S.A.A., F.C.I.S., who is retiring in the autumn.

Mr Long was awarded the Gold Medal of the Society of Incorporated Accountants and Auditors in 1924, and three years later he received the 'Collins' gold medal in the Final examination of the Institute of Municipal Treasurers and Accountants.

Mr Long is a member of the Colonial Local Government Advisory Panel which was set up in 1948, and a member of the Council of the Chartered Institute of Secretaries. He was chairman of the Council of the Institute of Public Administration for 1949–50.

Board of Trade Headquarters

CHANGE OF ADDRESS

The headquarters of the Board of Trade is being transferred to Horse Guards Avenue, Whitehall, London, SW1 (Telephone: Trafalgar 8855). Many of the branches of the Industries and Manufactures Department, Division 2, have already moved to the new offices; the principal officers of the secretariat are expected to move on August 13th. Further divisions of the Board will be transferred from Imperial Chemical House and Thames House (North) to the new offices in the autumn.

Until further notice, correspondence for divisions of the Board of Trade hitherto housed in Imperial Chemical House and Thames House (North) should be addressed as follows:

HORSE GUARDS AVENUE, WHITEHALL, LONDON, SW1
(*Telephone:* Trafalgar 8855)

The President, Overseas and Parliamentary Secretaries, Secretariat and Information Division (from August 13th).

Industries and Manufactures Division, Branches 2A and 2D.

Industries and Manufactures Division, 2B (dealing with organic and inorganic chemicals and plastic materials).

IMPERIAL CHEMICAL HOUSE, MILLBANK, LONDON, SW1
(*Telephone:* Whitehall 5140)

Commercial Relations and Exports Department.

Films Division.

THAMES HOUSE (NORTH), MILLBANK, LONDON, SW1
(*Telephone:* Victoria 9040)

Commercial Relations and Exports Department (Industries Branch).

Industries and Manufactures Division, Branch 2B and 2C (dealing with the production of rubber goods, paints, printing inks, synthetic resins, pesticides, insecticides, asbestos manufactures, bichromates, glue and cork manufactures, dyestuffs, alkalis, chlorine, certain sulphur and zinc derivatives, footwear, gloves and leather goods, furniture, pianos, basketware).

Industries and Manufactures Division, Branch 1.

Distribution of Industry and Regional Division.

Solicitor's Department.

Statistics Division.

The telegraphic address for the Secretary, Board of Trade, London, remains 'Boneblack', London. Telegrams intended for Commercial Relations and Exports Department should be addressed to 'Advantage, Sowest', London.

Migrant Companies: General Treasury Consent

As indicated on another page, certain transactions which would otherwise be prohibited by Section 36 of the Finance Act, 1951, are the subject of a general consent by the Treasury under Section 36 (4) (*a*). The consent applies to the following classes of transaction:

1. Transactions falling within paragraphs (*a*) and (*b*) of subsection (1) where: (*a*) the body corporate resident in the United Kingdom is incorporated after the passing of the Act for the purpose of carrying on a new trade or business not theretofore carried on by any person; and (*b*) more than 50 per cent of the issued share capital of that body corporate in existence at the time of the transactions in question, or, if there is then in existence issued share capital of the body corporate of more than one class, more than 50 per cent of the issued share capital thereof of each class is then, and was when it was issued, in the beneficial ownership of persons not ordinarily resident in the United Kingdom.

2. A transaction falling within paragraph (*c*) of subsection (1) which consists of the issue, by a body corporate not resident in the United Kingdom over which a body corporate resident in the United Kingdom has control, of shares for full consideration paid in cash to the body corporate issuing the shares or in or towards payment for any business, undertaking or property acquired for full consideration, unless either: (*a*) the shares are redeemable preference shares; or (*b*) the shares are issued to, or to trustees for, a body corporate not resident in the United Kingdom over which the body corporate resident in the United Kingdom has control or to, or to trustees for, an individual or individuals who has or have control over the last-mentioned body corporate; or (*c*) the effect of the transaction is that the last-mentioned body corporate will no longer have control over the body corporate not resident in the United Kingdom.

3. A transaction falling within paragraph (*d*) of subsection (1) which consists of the transfer of shares to a body corporate resident in the United Kingdom unless the effect of the transaction is that the body corporate resident in the United Kingdom which transfers the shares or causes or permits the shares to be transferred will no longer have control over the body corporate not resident in the United Kingdom.

Unless and until the general consent for these classes of transaction is revoked, individual applications to the Treasury for transactions of the kind covered will not be required. Naturally, individual applications will be necessary for transactions which are excluded by the exceptions specified in respect of each class.

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VALUERS AND ASSESSORS
OF WORKS, FACTORIES, Etc.

Inland Revenue Organization

The 'Report of the Committee appointed to review the organization and administrative methods of the Inland Revenue', which was discussed in a leading article in our issue dated March 17th last, has been published and may be obtained from His Majesty's Stationery Office, P.O. Box 569, London, SE1, price 2s net.

Chartered Accountant Awarded Research Grant in U.S.A.

The United States Government has allocated to research in the United States into management accounting and costing, one of the 1951–52 grants in dollars made available for research by the Smith-Mundt Act of Congress, and have awarded the grant to Mr F. J. K. Hillebrandt, B.Com.(Hons.), A.C.A., of Imperial Chemical Industries Ltd.

Mr Hillebrandt has also been awarded a travel grant under the Fulbright Act. He will be attached to Columbia University, Morningside Heights, New York.

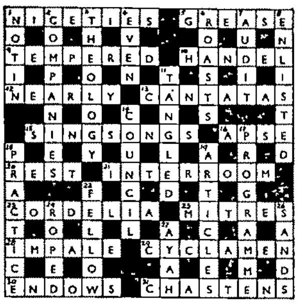
Cricket

Winning the toss and batting on an easy-paced wicket at the Civil Service Cricket Ground, Bettws Hill, Malpas, the Incorporated Accountants' Students' Society of Newport ran up a creditable score of 102 for nine declared in an evening match with the Newport Chartered Accountants Students' Society on July 27th. K. Mustoe made 49 runs and T. Sharrent 14, while J. Cox took 2 wickets for 21.

Unfortunately for the Chartered Students their opponents were bowling well too, and although J. Cox made 24 runs the side was all out for 59, J. Goss taking five wickets for 23 runs and R. M. Ireland four for 22.

Mr C. Gordon Jolliffe, F.C.A., and Mr Brian Wilcox were the umpires.

A Holiday Crossword



Solution to 'A Holiday Crossword' by J. Rose, A.C.A., which appeared in last week's issue.

Recent Publications

TRADE MARKS AND THE LAW OF UNFAIR COMPETITION, Second Edition, by T. A. Blanco White, Barrister-at-Law. xii+74 pp. 7×4. 5s net. Stevens & Sons Ltd, London.

PIONEERS OF BRITISH LIFE ASSURANCE, by Hartley Withers (edited by Conan Nicholas). 112 pp. 8½×5½. 6s net. Staples Press Ltd, London.

PRACTICAL BOOK-KEEPING AND ACCOUNTS (Advanced Stage), by E. F. Castle, B.COM., A.S.A.A. 448 pp. 8½×5½. 10s net. University Tutorial Press Ltd, London.

FINANCIAL STATEMENTS AND REPORTS for the year ended December 31st, 1950, of the City of Edmonton, Alberta, Canada. 94 pp 9×6.

SPECIMEN ANSWERS TO THE QUESTIONS SET AT THE CHARTERED INTERMEDIATE EXAMINATION, May 1951, with COPIES OF THE QUESTIONS. 7s 6d net. Study Services Ltd, London.

ACCOUNTS OF THE HERTFORDSHIRE COUNTY COUNCIL for the year ended March 31st, 1951. 235 pp. 9½×7.

Our Contemporaries

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (July.) 'The Auditor Meets the Thief', by Boris Kostelanetz, C.P.A.

Other Publications Received

MIDLAND BANK REVIEW. (August.)
MONTHLY REVIEW OF THE BANK OF NOVA SCOTIA. (Toronto.) (June-July.)
PUBLIC ADMINISTRATION. (Summer, 1951.)
REPERTOIRE FISCAL. (Brussells.) (May-June-July-August.)
PROGRESS. (Summer, 1951.)
INTERNATIONAL ACCOUNTANTS' JOURNAL. (June.)
THE CONTROLLER. (New York.) (July.)
THE BUILDING SOCIETIES' GAZETTE. (August.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 12th, 1876

The final paragraph of a long letter to the Editor

The Late Bankruptcy Bill

The provision that the Court may be called upon to intervene upon special items should be unnecessary except for the purpose of making a debtor answer with his person for any substantiated neglect, or refusal to explain or assist. The words 'wilfully fail' qualify (and stultify) the whole of the last paragraph. Until book-keeping is compulsory, and neglect to keep books a penal offence, a debtor who 'wilfully fails to perform his duties' is simply a fool. Why should a man refuse point blank to do that which he can equally well fail to do without wilfulness, and by a simple failure of memory and the want of the necessary data to refresh his flagging memory? Contempt of court may easily be made available against trustees or receivers; why then should it not be as readily available against obstructive debtors?

Yours etc.,

London, July 19th, 1876. INVESTIGATOR.

MOTOR — FIRE — CONSEQUENTIAL LOSS
CAR & GENERAL INSURANCE CORPORATION LTD
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The Accountant

ESTABLISHED 1874

AUGUST 18TH 1951 VOL. CXXV NO. 4000

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4,000

ROUND numbers, said DR JOHNSON who was nothing if not dogmatic, are always false. While no accountant would wholly endorse this dictum, it must be admitted that the distinction they confer when applied to one of a sequence of objects or events is sometimes both arbitrary and fleeting. The five hundredth performance of a play, for example, is soon merged into the general impression of the run as a whole. The millionth visitor to an exhibition is pounced upon by the authorities, fêted for a day and then forgotten. But with the numerical landmarks of learned periodicals it is slightly different. They are not 'like the snowflake on the river, a moment white then gone for ever'. On the contrary, they are assembled with their fellows in substantial volumes and, thus preserved, are made permanently available to the inquiring gaze of posterity.

It is fitting that on the occasion of the appearance of this, our four thousandth, number we should cast a backward glance at some earlier issues for it is an excellent way of getting a view in perspective of the profession down the years. Our first number was published in October 1874. That period in history has now come to be regarded as a leisurely and prosperous age. It is surprising therefore to find – firstly, that our opening editorial referred to the seemingly perennial problem of the hard-worked professional man, the amount of reading with which he had to cope, and (paradoxically) the limited space available for providing the necessary reading matter for him; secondly, that nearly half the first number was devoted to articles on insolvency and reports of court proceedings in bankruptcies throughout the country. Our early emphasis on this aspect of professional work was apparently justified for, as a contributor then pointed out, the Bankruptcy Act of 1869 was

> 'very stringent upon the solicitors, receivers and trustees practising and appointed under it but there never was a merrier time for dishonest insolvents, whether in bankruptcy, liquidations, or under composition'.

By the time that our thousandth number had appeared (in February 1894), the status and scope of the profession, judging from the range of our subject-matter, had increased considerably. Bankruptcy as a topic of first importance had given way to articles on company law and audit procedure, although a review of 1893 in an earlier issue stated that the most striking feature of that year was the very large number of 'disastrous and fraudulent failures' which had taken place 'in various forms of joint stock enterprise'. The reports of the activities of The Institute of Chartered Accountants in England and Wales, incorporated by Royal Charter fourteen years previously, and of the Scottish bodies (who, *semper*

vigilans, had just successfully contested an action against the Corporation of Accountants Ltd to preserve the exclusive use of the initials 'C.A.') were being given prominence in our columns but nowhere in this particular issue was income-tax (then 7*d* in the £) mentioned.

The next stride in our survey carries us right across the Edwardian era almost to the eve of the First World War. Although the number of our editorial pages had increased from twenty-eight to fifty-two, the format and features of our two thousandth issue, published in April 1913, did not differ greatly from that of our thousandth number. Nor had many of the problems under discussion altered appreciably in character. We noted in a commemorative leading article that

> 'the belief that a Government Department can cure all evils was apparently as prevalent in some quarters in 1894 as it is at the present day',

and we deplored the remarkable development of 'officialism' in certain directions during the intervening period. Taxation, with income-tax at 1*s* 2*d* in the £ and super tax now in being, had 'arrived' and our correspondence columns, which ever since our inception have been one of our most valuable features, contained an ever-growing number of letters from accountants seeking (and giving) information on this increasingly complicated subject.

Our three thousandth number appeared in June 1932, in the middle of a period of great economic and financial instability. The previous year had seen the formation of a National Government, the presentation of a second Budget with a heavier burden of taxation and the abandonment of the gold standard. It was with faith rather than with reason that the world was attempting what it is again faced with today – the task of equating wages and prices. The statistical tables which we published in that issue told their own tale. The £ was below par on most of the principal foreign exchanges. More than 20 per cent of the working population of twelve million were unemployed. Imports for the first four months of the year were down by £12 million as compared with 1913 but exports of British produce and manufactures had fallen by £43 million. In an interesting article, PROFESSOR J. H. JONES, who for many years was a distinguished contributor to our pages, expressed the opinion that the conferences on reparations and disarmament, shortly to take place, were perhaps the last chance for rebuilding the world economic structure but, within a year thereafter, the Nazis had forced their way to power in Germany and the threat of war again hung over Europe.

In the profession itself, there was an air of crisis. The celebrated *Royal Mail Steam Packet Co* case – in which it was disclosed that, over a period of years during which losses were being incurred, dividends were paid out of previously accumulated reserves or windfalls, i.e. non-recurring contributions to revenue which were placed to the credit of the profit and loss account, without the knowledge of the shareholders – was still causing consternation and confusion of thought. The growing desire for clearer and more informative accounts found expression in our weekly 'Finance and Commerce' feature where, with ample justification, the charge of obscurantism was made repeatedly against companies whose accounts, wittingly or unwittingly, were so designed as to conceal, rather than to reveal statistics essential to the proper understanding of the company's affairs. Public opinion was hardening but it was not until the publication of the report of the COHEN Committee in 1945 that an authoritative lead was given to company managements and to the profession–a lead which resulted three years later in the passing into law of the new Companies Act of 1948.

From the multitude of impressions which this brief contact with the past evoked, two – apparently contradictory but in fact complementary – stand out. The first is that the profession, during the seventy-seven years we have had the honour to act as its chronicler, has been in a constant state of evolution. The rate of progress from the primitive to perfection is always slow and hard but it is a healthy sign – and this is our second main impression – that the same problems, or different facets of the same problems, recur decade after decade.

> 'No great cause,' wrote John Buchan, 'is ever lost or won. The battle must always be renewed and the creed restated and the old formulas, once so potent a revelation, become only dim antiquarian echoes.'

In these conflicts which lie ahead, we hope that *The Accountant* will continue to play its part on the side of truth.

A CENTURY OF SOCIAL SERVICE

THE argument of the Spirit Sinister in THOMAS HARDY'S *The Dynasts* that war makes rattling good history but peace is poor reading has been amply refuted by the inspiring chronicles of the progress of social welfare during the past hundred years. In 1851, the social services, as we now know them, were non-existent. It is true that the cholera epidemics of some years earlier had precipitated the Public Health Act of 1848, the first of a series culminating in the definitive Act of 1875, but these statutes were concerned mainly with such communal amenities as sanitation, sewerage and drainage. The individual in want was covered officially at that time only by the Poor Law and he had to be destitute before he qualified for assistance under it. Apart from the mutual help afforded to their members by the prosperous friendly societies, the only other channel of assistance was private charity.

In his paper presented on Tuesday last to the Economic Section during the 113th annual meeting in Edinburgh of the British Association for the Advancement of Science, MR JOHN STIRLING, C.B.E., B.COM., B.L., F.S.A.A., Chief Accountant in the Department of Health for Scotland, admirably illustrated in statistical form the gradual awakening of the national conscience in these matters. The statement which he produced, after much diligent research, showed at eleven points of time between 1850 and 1950 (*a*) the growth of social service expenditure borne on the Exchequer and on local rates; (*b*) the expenditure per head of the population, both actual and equated to the price level of 1900; and (*c*) the amount per £ of the average individual share of the national income diverted by central and local authorities to meet public expenditure on social services. His survey included expenditure incurred under the headings of education, housing, hospitals, maternity and child welfare, family allowances, lunacy and mental treatment, pensions (excluding war pensions), poor relief and health and unemployment insurance. The aggregate cost of such of these services as were in existence in 1850–51 was £7 million, levied from an estimated national income at current prices of £600 million. The corresponding figures for 1900–01 were £36·5 million and £1,756 million, and for 1949–50 £1,162 million and £10,864 million. The population figures for these three years were approximately 27·4 million, 41·5 million and 49 million. Thus the actual expenditure per head worked out at 5*s* 1*d*, 17*s* 7*d* and £23 14*s* 4*d* or, equated to the 1900 price level (because the fall in the value of money in this century distorts comparisons of the actual) 5*s* 3*d*, 17*s* 7*d* and £6 0*s* 8*d*. The average income per head of the population for these years (equated to the 1900 price level) was £22 7*s* 0*d*, £42 7*s* 0*d* and £56 9*s* 0*d*. The amount per £ of average income expended on social services, on the same basis, was thus 2¾*d*, 5*d* and 2*s* 1¾*d*.

The chief landmarks in this century of enlightened progress have been concerned with education, housing, health and unemployment insurance and pensions. In 1870, universal free elementary education was introduced and in 1918 the principle was extended to cover secondary and further education. In 1908, a start was made with non-contributory old-age pensions. Three years later saw the beginnings of the national health and unemployment insurance schemes and in 1919 local authorities began to build houses with State assistance. Finally, in 1948, the comprehensive national health, insurance and assistance service came into operation.

With the main trends in the development of these services and their effect on the national economy, MR STIRLING dealt fully and he concluded by asking his audience to consider:

> 'Whether under present conditions we can afford the Welfare State (in particular reference to the insurance contributions which are so heavy an "oncost" on industry) or as some people would prefer to put it, whether we can afford *not* to have it.
>
> 'To what extent the "cover" now provided by the social services represents additions to real incomes which should be taken into account in wage negotiations.
>
> 'The suggestions which have recently been put to the Royal Commission on Taxation as to the merging of social insurance contributions with a simplified income-tax and the suppression of insurance cards.'

Every action of consequence has a corresponding reaction elsewhere and until these problems are resolved the benefits of the social revolution we are now experiencing will not fully mature.

GOODWILL

by ANGUS MACBEATH, C.A., A.C.W.A.

Days of rapid and continuous change create conditions which affect and alter existing ideas. In goodwill – that intangible asset upon whose value high hopes often rest and which may yet be merely transitory – we have an asset whose value is today subject to alteration almost from hour to hour. In this article are examined some of the important matters which arise in considering the value of goodwill and the effect which modern legislation and conditions may have upon it.

Main Considerations

GOODWILL in the business sense has been defined in several ways but means, generally, the ability to earn more than an average rate of profit based upon current conditions.

The value of goodwill is of importance in the buying and selling of all established businesses, and accountants are frequently required by clients to advise them upon this value, while, in the assessment of the value of the shares in a private limited company or of the interest of a partner in his firm for estate duty purposes, the value placed upon the goodwill may be of great moment.

The main consideration from an accounting point of view is the amount of the super-profits earned by the business, or the estimated ability as judged from past results of obtaining a profit in excess of a fair commercial reward based upon current requirements and standards.

Consideration of goodwill must be made in a separate way for different classes of business: thus the value of the goodwill of a limited company will be different from that of a partnership or of a sole trader; the goodwill value in patents and trade-marks will differ from that of a professional practice.

The goodwill of a public limited liability company whose capital is quoted on a stock exchange can be calculated readily by deducting from the stock exchange value of the issued capital the value of the net tangible assets represented by that capital. If the purchase of a public company is contemplated, then the yardstick is the current market value on the stock exchange and any excess over that figure is not really a payment for goodwill but a payment to obtain control, to eliminate competition, or to achieve some other economic advantage.

Other Factors

The goodwill of a private limited company or of a partnership or sole-trader will often be agreed by compromise between buyer and seller based upon the accounting results which the business has shown over a period of years and by various other factors which are not strictly within the province of the accountant but upon which he will require to be informed if he is to be able to advise his client adequately.

Among the factors other than purely profit items which affect the value of goodwill, are some which are being altered by conditions which have arisen in recent years and the following list of factors which may arise in considering goodwill includes some of those items and conditions.

Land. If a business owns land which is well situated and suitable for development or for extension of existing facilities, an enhanced value for the business may be justified notwithstanding the development charge which may require to be paid. Here the enhanced value will depend upon the use which will be made of the land, whether for extension of the premises of the business owning the goodwill, for a new factory for the buyer, or even to prevent a competitor from obtaining possession.

Buildings. Goodwill may arise where a business has excellent buildings with adequate floor-space and suitable for the buyer's purposes. At the present time, when the opportunity to build is so restricted, it may profit a buyer to pay a goodwill value to a business which has an unsuccessful trading record because the buildings acquired in the purchase will be suitable to convert to the type of business which he wishes to follow.

Machinery. It is necessary to consider the age and worth of the plant and machinery used by a business. Thus, for example, a business which has shown a high and continuous level of profits may have run its plant to death and be on the point of falling down on its business at a time when the replacement of even a part of the equipment is a lengthy process.

Again, if a business has been making high profits from plant which has been improved upon by new inventions in the hands of competitors, the ability to maintain the rate of profits may be seriously jeopardized.

Stocks. The value at which stocks are included in accounts must be viewed with a different eye from that of the auditor. Whereas the auditor will

normally accept the result of applying the dictum 'cost or market value whichever is the lower', the buyer of goodwill must consider whether any part of high profits shown by the accounts of the business have arisen through the fortunate sale of old stock which it was possible to liquidate because of a change in market conditions of which the business was able to take advantage, and also whether stock included at market value is, in fact, reasonably valued, as the market value adopted may still be an optimistic view of the possible value on realization.

Patents. Patents have a life of limited duration and this limit must be taken into account in assessing the goodwill of a business whose trading profits arise in whole or in part from the exploitation of patents.

Monopoly. The goodwill of a monopoly is in a special category. Unless the proprietors of the monopoly are very public-spirited, the business will tend to receive a profit which is in excess of normal competitive commercial standards. In considering the value of the goodwill, super-profits must be the subject of careful survey in relation to factors outside the business. Is the monopoly universal, or national only? Could the super-profits be drastically reduced by a change in fiscal policy over which the business has no jurisdiction? Is there any possibility of competition from substitutes?

There cannot be any proper yardstick for measuring the value of the goodwill of a monopoly since continuation of the amount of the super-profits depends upon the continuation of the monopoly conditions.

Substitutes. Since the value of goodwill does not depend on super-profits, but upon the maintenance of super-profits, the possibility of competition from substitutes to a business earning a high level of profits must be considered. The effect of the use of cigarette lighters upon the sale of matches; the competition of the omnibus with the railway train; the washing machine with the laundry service; synthetic with natural rubber; these factors, and many similar, play their part in reducing the value of goodwill.

Conditions of Trade

By conditions of trade is meant the national or world position from time to time in regard to the purchase of materials used by a business and to the sale of its products.

Thus three consecutive exceptionally wet years may give the impression of wonderful expansion to a business which manufactures waterproof clothing, yet the business might be made bankrupt by a succeeding period of three years of exceptionally dry weather.

This position must be considered in relation to the goodwill of a business. The forward position is an unknown quantity but the immediate past is known and a buyer could reasonably point to exceptional conditions of trade in very high profits, and to the fact that normal conditions would probably produce a normal profit only, while a seller could similarly point to exceptionally poor conditions producing exceptionally poor profits and maintain that normal conditions would probably give results more in line with past experience in normal years.

The supply of raw materials may be under the sway of world conditions much more in one industry than in another. Thus we find a world with a diminished sheep population, and an avaricious appetite for wool, paying relatively fantastic prices for the wool available with consequent effect on the woollen industry. On the other hand the glass industry may be able at any time to find alternative sources of supply of suitable sand with small difficulty.

MARKETS

A buyer of a business must investigate the source of supply of raw materials and the ultimate destination of sales.

If the business has obtained the bulk of its raw materials from subsidiary or associated companies or from special connexions – perhaps at preferential prices – continuance of these connexions will obviously be a necessity to continued good trading unless the buyer has equal or better sources of supply, in which case he will be less willing to pay a high price for goodwill arising from the advantages of the existing connexions.

If sales have been made to associated companies or connexions, these outlets will require to be continued to maintain the value of the goodwill arising from the profits due to those sources of sales.

Public Fashions

The public are notoriously fickle, and in fashions no less than in anything else.

Where a business has built up substantial profits upon a particular line of fashion this fickleness of the public must be considered in examining the possibilities of a continuation of those profits. Fickleness will be difficult to gauge in any particular instance, with the result that a higher rate of profit will be required before super-profits emerge than will be required in an established continuing business such as that of a baker and confectioner.

Sellers' and Buyers' Markets

Goodwill value should never in fairness be calculated on the profits arising during a period when market conditions are exceptional. A sellers' market will produce good profits whereas a buyers' market will give the narrowest possible margin.

It is difficult to forecast the future with any high degree of accuracy, and a sellers' market, on the one hand, may disappear rapidly for any one of a variety of reasons – additional production; use of substitutes; change of fashion, are three possible reasons while, on the other hand, a buyers' market may suddenly give way to a sellers' market – war; rearmament; shortages; change of fashion, are four of the possible reasons for this happening.

The fairest thing to do is to choose a year which may reasonably be regarded as a normal one from the point of view of supply and demand and to make allowance for the known market fluctuations since that year.

This procedure should be adopted even though the year chosen as normal, is beyond the number of years which had been proposed as the period over which the profits should be considered in calculating the goodwill. The position is rather similar to the method used in calculating the liability to excess profits tax where a standard period of years was chosen as representing a fair profit era and the profit selected from those years was compared to the current profits to arrive at the excess profits upon which the liability was calculated.

MANAGEMENT AND WORKERS

Management

If the management of a business is to be continued without change after purchase from that management, consideration must be given to the possibility of a future decrease in profits due to the cessation of that natural urge which one has when working for one's own profit and which we call 'incentive'.

Where it is intended to change the management, consideration must be given to the proposition that part of the profits of the business arose from the ability of the management and, therefore, as that part of the profits is not being acquired, the value of the goodwill should be reduced accordingly. The position is that though the profits of the business may be maintained in amount or even increased, that maintenance of profits has been due to the new management or to some other cause and does not form part of the maintainable profits of the business as acquired.

Labour Force

This factor is of vital importance today.

The manpower requirements will vary between different types of business. One business will require a large number of fully-skilled men; another business will require partly skilled and partly semi-skilled; while yet another will employ a majority of female labour, and so on.

In assessing the worth of a business it is necessary to ascertain that there will be a continuous and ample supply available of the type of labour required.

Careful assurance is necessary that the profits of the business do not depend upon the skill of old workpeople whose services once lost could not easily be replaced. The position can be illustrated from the comedy play *Hobson's Choice*, where the business of Hobson could not withstand the loss of the 'star' bootmaker, Willie Mossop, whose ability represented, in effect, the goodwill of the business.

If a business has failed to take adequate steps to provide a continuity of skilled workpeople the value of its goodwill must thereby be endangered. Similarly, if the possibility of maintaining the numbers of workpeople required has diminished due to local migration then the goodwill may be affected, though, in this instance, if suitable economic conditions can be found elsewhere and the plant can be moved without damage to the productive or sales capacity then the prospective profitability may not be affected.

Individuals

As illustrated above, goodwill frequently rests in individuals, and other examples are:

(1) The transfer fees paid by football clubs for players of outstanding ability. These fees are primarily goodwill payments to attract larger 'gates' to the matches in which the clubs paying the fees take part.

(2) The 'box office' attraction of the names of 'star' cinema and stage actors which enables salaries to be paid which are substantially goodwill sums. That is to say, though acting ability may remain constant, if an actor attracts the attention of the public to the extent that a greater total sum is willingly paid to see and/or hear him, then that actor has a goodwill value which is vested in himself entirely and is incapable of being transferred.

Though the goodwill is vested in the individuals, if they are bound by contract to a particular business then that business is the owner, for the term of the contract, of the goodwill value which may exceed the goodwill salary being paid.

(To be continued.)

ACCOUNTING THROUGH THE AGES

The Origin and Development of Double-entry Book-keeping

by R. ROBERT, A.C.I.S.

INVESTIGATION tends to show that rudimentary book-keeping methods were being evolved in the very beginnings of civilization. For example, the Egyptians had simple stock-control systems whereby a check was kept on stores of grain, the incomings and the outgoings being recorded on papyrus. More remarkable still, they had their national revenue and taxation records, specimens of which are still legible to the initiated, though they date back to the second millenium B.C.

Decorative Accounts

The precision lacking in these early accounts – for they were largely couched in narrative form – is counterbalanced by their extreme decorativeness. They are beautifully painted in dyes and pigments, the lustre of which has remained untarnished through the centuries.

The rival civilization of Babylon has yielded similar evidence of man's early concern with his assets and liabilities, and the accurate recording thereof. In fact, even the most casual research into this dim and distant past is sufficient to prove once more that there is little new under the sun.

For there, on the banks of the Euphrates and the Tigris, in a society that had only just ceased to be nomadic, four or five thousand years ago, existed a whole substratum of merchants, money-lenders and landlords, with the concomitant institutions of profit, interest and rent. Everything, it would seem, had an embryo existence in those remote periods of human history, even book-keeping.

Of course, it must be realized that trade in those primitive communities, settling down for the first time in towns and cities, was largely a matter of barter. Commodities were simply exchanged, though there were in different places and at different times, certain commodities which were made to serve the purpose of money: cowrie shells on the African coast, oxen in Greece, bricks of tea in Tibet, and so on. But obviously, so long as exchange of goods was on a basis of barter, the need for complicated records hardly existed.

The limitations of barter must have become manifest at a very early stage. And soon, when transactions in the ancient world became more numerous and more complicated, the notched stick and the clay tablet were seen to be utterly inadequate.

Need for Written Accounts Emerges

It was, if we may believe the historians, the Semitic people who made the most determined and successful efforts to evolve means of computation and methods of recording transactions in an alphabetic script. Further, it has been maintained that it was their pressing need to keep accounts which brought the first alphabet into existence and that the art of writing developed as the result of early business men deciding that the time had come to keep records.

Elementary accounting techniques were carried a stage further by the Greeks, who were the first people to mint gold coins. Issued about 600 B.C., they bore the stamp of King Crœsus, whose name is still synonymous with fabulous riches. The Romans, too, used money in metallic form; and the Ancient Britons, as Julius Cæsar has stated in *De Bello Gallico*, utilized iron bars of fixed weight as a measure of value. Obviously our forefathers were not so backward as might be imagined in matters of finance!

Athens had a range of silver coins, some so minute in size that they were no bigger than a pin's head. This fact provided the Greek dramatist Aristophanes with an opportunity for making his audience laugh. A character in one of his plays is made to keep his money in his mouth, presumably because he had no pockets, or for the sake of additional safety Presently his friends indulge in a little horseplay, he is thumped on the back, and the poor fellow swallows his change!

This is a digression, but a pardonable one because it will be obvious that until money was invented and came into general use, there was literally no basis for book-keeping in the modern sense. Accounts record a whole multitude of facts, but always they have to be reduced to a common denominator: pounds, shillings and pence.

Roman and Arabic Numerals

Another *sine qua non* was a numeral system of sufficient flexibility to permit the setting down with ease of large amounts and quantities. The Romans, of course, had one, and with its aid they made considerable advances in account keeping, just as they did in so many other things. Receipts and payments were analysed by them and they fully understood the implications of the terms

creditor and debtor, liability and asset. But their numerals were by no means perfect and it was left to the Arabs to produce a better system – the one now in almost universal use.

All this took time, but at last we arrive at a point when barter became less frequent and money was being used as the recognized medium of exchange; a point where a flexible system of numeral recording existed and where merchants conducted their business on credit.

The advance was considerable, and yet it seems improbable that anyone in the ancient world had thought so deeply as to be able to adumbrate even the outlines of a co-ordinated book-keeping system, in which facts were integrated in such a manner as to reveal the totality of a given financial situation. Even by the time of the early Middle Ages, it is probable that the mercantile community as well as the governments of the various principalities worked on systems of single-entry book-keeping – some of them no doubt less bad than others.

Appearance of Double-entry Book-keeping

Then quite suddenly, and a little mysteriously, the superior system is found in use – double-entry book-keeping in all its scientific essentials. How, and where, it first emerged from the morasses is a matter for conjecture. Nor can we state with certainty who was the man, the genius, responsible for bringing about so revolutionary an innovation.

Perhaps no single man *was* responsible, any more than one man alone invented the steam engine – or electricity. It is quite possible that the system was some time evolving, that it was hammered out on the anvil of experience by hundreds of different hands. The final shaping and tempering was perhaps the work of an individual, someone whose brain had a powerful capacity for synthesis. That, however, is mere speculation. So far as origins are concerned, research has hitherto ended in frustration and it has to be confessed that little or nothing is known for certain.

Commerce in Renaissance Italy

The darkness is not quite so impenetrable in another respect. Whilst the beginnings may be concealed behind the billowing clouds of antiquity, we do know where the art and science of double-entry book-keeping was first practised. The honour and the glory, if such it be, belongs to Italy; and it was in the great trading city of Venice, the 'Queen of the Adriatic', that the first treatise on the subject was published.

That this should be so was, perhaps, no purely fortuitous event. Necessity is the mother of invention, and it is more than probable that the leap forward in book-keeping technique was something that arose out of the tremendous expansion of trade which had been going on in the Mediterranean, and reached its apogee in the fifteenth century.

The Italian city-states, Milan, Genoa, Venice and Florence (home of the powerful Medici family) were at the crest of a great wave of prosperity. A new world – America – had been discovered; the Cape of Good Hope had been rounded; the trade routes to the wealth of India and the east had been opened up and great commercial enterprises were embarked upon by the merchant-princes.

Out of all this – a mere by-product in one respect though an essential in another – arose the new accounting system, comprehensive and exact: one moreover, which acknowledged the duality inherent in even the most trivial transaction.

First Accountancy Text-book

Author of the epoch-making manual, which was entitled *De Computis et Scripturis*, was a Franciscan friar named Luca Paciolo. Not only did his work, published in 1494, give its readers all the information then available on the subject of 'arithmetic, geometry and proportion', but it was the first revelation on the printed page of the mysteries of algebra. And – hidden away amid all of this mathematical lore – was a section devoted to our subject: double-entry book-keeping.

But the learned friar must on no account be credited with more than he deserves. Certainly he was the first to *write* about the art; but it had been practised long before he ever set pen to paper. The merchants, the city treasurers, even perhaps the monasteries, had been operating systems of double-entry for at least one hundred and fifty years before *De Computis et Scripturis* came off the press. That this is so, is a matter capable of conclusive proof. A set of books kept by the Commune of Genoa on double-entry principles as far back as 1340, are still in existence. This would seem to support the argument that the process of evolution had been a gradual one, with perhaps a final crystallization in some more than usually acute brain.

After publication of Luca Paciolo's book, diffusion of the new accounting method was rapid, and in a comparatively short time it came to be adopted by the merchants of France, Germany, Holland and of our own country. The

reasons are not far to seek and will not require any detailed explanation to a reader who is either a qualified accountant or secretary.

One may, perhaps, be allowed to lay emphasis on just one point. The new method brought the *nominal* account into use, possibly for the first time in the history of the craft. The learned clerks (and even their masters) began to think *dialectically*; they trained themselves to consider everything in its two-sided aspect. Just as every positive implies a negative, every white a black, so they had come to the startling truth that every debit implies a credit. Sales, purchases and expense accounts came into their own, to play an increasingly important role as time went on.

A great dawn seems to have broken upon the mercantile world, a revelation to have penetrated into the counting houses. The book-keepers plying their feather quills, first on this side of the ledger then on the other, developed into paragons of dexterity. The calculation of profit and loss became suddenly a mere matter of routine, where before it had depended upon a combination of necromancy and prophetic inspiration.

Development of 'Double Entry' in Britain

So much for the evolution of double-entry book-keeping. Now for a very brief review of the way in which it has developed since. And for that purpose we leave the Continent and turn to Britain, which from the days of Elizabeth onwards has been one of the greatest trading nations, and therefore most likely to cultivate the art of good book-keeping.

First, if only by way of rounding off these few gleanings from the past in an agreeable manner, mention is made of one of the earliest books of instruction available in the English language. This was a tome entitled *English System of Book-keeping by Single or Double Entry* – and the author was one, E. T. Jones, of the city of Bristol, who proved himself in the event to be no great accountant or book-keeper, but a most excellent man of business.

He issued an advertisement, praising the virtues of his system over all others then extant. Those interested were asked to fulfil certain conditions, the chief of which was to remit the sum of one guinea (a larger sum of money in 1796 than it is today!), and in return they would receive from Mr Jones, patentee of the 'new and improved system' a copy of the book together with a general licence to make use of the invaluable information contained therein.

The campaign was eminently successful and brought in several thousand guineas. Mr Jones was highly satisfied, but the recipients of the treatise when it at length arrived, very much less so! If one may believe some of the most competent authorities, the *English System of Book-keeping by Single or Double Entry* was valueless.

Italian System Adopted

It was the Italian system that was generally adopted and it would appear to have reached Britain early in the seventeenth century. The principles were quickly grasped and applied to suit the commercial needs of those days. Trade and manufacture were then conducted either by individual capitalists or by partnerships. The latter would have called for somewhat more complicated accounting procedures than the former; and the apportionment of profits, the adjustment of capital accounts, the introduction of drawing accounts for the various partners, no doubt created problems the solving of which raised the science of book-keeping to a higher level.

Then, in the nineteenth century, the public limited-liability company emerged as the dominant financial and economic unit. Various enactments culminated in the Companies Act of 1948, in which is contained detailed provisions for the keeping of books, the preparation of balance sheets and profit and loss accounts.

The reader, running through the relevant sections of the Act, will see for himself that a double-entry system is postulated in the very nature of the requirements, which are so far-reaching and so multitudinous that it is difficult to conceive of any other system capable of coping with them in their entirety. It will also be obvious to him that the mass of legislation has resulted in still further development in accounting and book-keeping techniques, and that the development is still going on.

Original Basic Principles Unchanged

But a plain fact has to be recognized: it is a development in detail only. *Plus ça change, plus c'est la meme chose!* The double-entry book-keeping system first used by the Commune of Genoa, six hundred years ago, has been subjected to no radical alterations to the present day, and probably does not admit of any. It is true that there have been modifications; the law has insisted on certain conditions being fulfilled; there have been infinite refinements and elaborations: but there has been no departure from basic principles.

The men of Renaissance Italy, unknown, unhonoured and unsung, laid the foundations firm and true.

WEEKLY NOTES

The Finance Act, 1951

The Finance Act, 1951, which received the Royal Assent on August 1st, has now been published by the Stationery Office. Containing forty-four sections and seven schedules, it covers over sixty pages and lacks nothing of the involved and complicated drafting which is always associated with Finance Acts. There are copious references to former, and no less complicated, enactments which are amended or applied to new circumstances, provisos within provisos, and such nice distinctions as that between 'dried' figs and 'drained or crystallized' figs, which means a difference of one shilling tax in the hundredweight. No less prominence is given to this than is given to the new standard rate of income-tax, which at 9*s* 6*d* in the £ is the all-time record except in wartime. Even in 1940, after Dunkirk, the Government imposed a rate of only 8*s* 6*d*. This savage rate is accompanied by a mass of legislation directed against avoidance which will add considerably to the business man's worries. We hope to begin next week a short series of articles dealing with the more important changes in direct taxation law.

Central Land Board

The report of the Central Land Board for the year 1950–51[1] contains some remarkable figures. Of the 78,192 applications to determine development charge which were disposed of by the Board, 36,813 (about 47 per cent) were found to be exempt or to attract a 'nil' determination, and another 21,481 were not determined because they were premature or because the applicant had no interest in the land.

The Board received £3,159,492 in cash against just over £2 million last year, and a further £1,295,924 was set off against claims on the £3 million fund. The applications so far made represented rather less than a quarter of the estimated total, but the figures of the Board seem small compared with the £3 million limit on payments for the loss of development value.

Claims against the fund have been numerous. So far 387,968 notices of statement have been issued by district valuers to claimants, but only 158,235 of these have been finally determined. A high proportion of the determinations (39 per cent) were in respect of land which had no development value. Although 288 appeals were lodged against determination no appeal has yet come to a hearing. Contributions by the Board to professional fees incurred by claimants amounted to £702,998 in the year.

Winter Power Prospects

The Electricity Sub-Committee of the Joint Consultative Committee of the National Joint Advisory Council issued its report last week on the steps to be taken in the coming winter to avoid severe dislocation of industry due to an anticipated shortage of electric power. It was already known that the Minister of Fuel and Power had accepted their findings.

The worst power shortage since the fuel crisis of 1946–47 is expected next winter. In consequence, whereas last year at this time it was decided to reduce the rigours of cuts and shift working to spread the load, this year the trend is reversed. Industry is to be asked to reduce its power consumption at times of peak demand by 20 per cent. Peak periods are to be extended and will this time mean 8 to 12 in the morning and 4 to 5.30 in the afternoon for the whole of the five month's period November to March. Working hours are to be staggered, Saturday shift working and night shifts are to be reintroduced and double shifts are to be encouraged. It is expected that less stringent measures will be necessary in Scotland where new capacity, including hydro-electric power, will give a larger increase in supply than elsewhere.

Peak demand this winter is expected to vary between 13,800 megawatts and 15,100 megawatts – depending on the weather. It is likely that there will be an increase of new potential of 900 megawatts, giving a maximum capacity of 12,200 megawatts by about February. Industry's share of the total demand is put at 50 per cent. In other words it is expected to transfer 0·6 megawatts of demand at the peak. The position will be worse, of course, if solid fuel supplies to the domestic market are short of expectations.

There are only two sources of partial relief to this grim prospect of a disorganized, chilly winter in office and factory. One is a mild winter and the other is lower industrial production caused by other factors such as material shortages. This last would be a paradoxical solution with a vengeance.

Seasonal Changes in Output

This is the height of the summer holiday season and although the statistics now being issued are a few weeks old by the time they are released, it is possible to get some idea already of the effect of summer holidays on industrial production. This year the trend of output is particularly important to watch since the year's fiscal strategy is based on an assumption of a 4 per cent increase in output this year over last.

Two key industries are now showing drops in production much larger than can be laid at the door of holidays. Steel output in July was down to an annual rate of 13·3 million tons compared with 14·4 million in July last year. Production is in fact now running at a rate below the summer of 1950 – an anticipated development but none the more welcome for all that.

The situation in coal is much more disquieting. Production is now running at a lower rate than last year over the summer season. That is to say, the

[1] H.M.S.O. 9*d*.

steady decline in manpower is a continued influence on output. One consequence of this is that the rate of accumulation of coal stocks is now slowing down and if the present trend is not halted stocks may soon be little better than last year at the beginning of the winter months when stocks are normally drawn upon for a five or six month's period.

The general picture of the country's stock position is somewhat confused at the moment. There is certainly no sign from the statistics as a whole that industry is suffering from an overall shortage of materials. Some goods show a healthier stock position at present, in fact, than for a long time. So long, however, as such basic items as power, coal and steel are offering no prospects of an increase large enough to keep pace with a total increase in output of 4 per cent the situation must be considered unsatisfactory.

Higher Steel Prices

Large increases in the prices of steel products were announced at the beginning of this week. Steel plates are up as from August 13th by some 19½ per cent, sheets by 20½ per cent, and billets 25 per cent.

The change can hardly have been unexpected and, of course, has nothing to do with the nationalization of the industry. For some time the industry was able to offset the increased costs which have arisen from all quarters, by useful economies of production as the post-war expansion programme has come into operation. But of late the rises in the prices of imported raw materials, fuel and transport and higher wages have been too much to absorb. The surprise is not that steel prices have risen, but that, taking into account the size of the increases this week and the shortage of steel that has developed over recent months, the changes should have been so long delayed.

There is one other price change announced. Up to now, the price of imported finished steel has been subsidized by the Government. These prices will not be subsidized any further.

Motor-car Outlook

Reports of smaller sales of British cars in the Canadian market, and the diversion of a good deal of the activity that went into building up the market there, towards Australia, is a sober reminder that the motor-car industry may not be able to retain the high place on the export achievement list which it has had for several years. There were pointed remarks recently, too, from the head of Ford's of America about the difficulties of selling British Ford products in the United States market. The performance of the motor-car industry in the export market has indeed been a great achievement – carried out in many cases in what were new markets where dealer outlets had to be built from the ground up.

Under these circumstances it is noticeable that few of the large car makers in this country have failed to read the signs of the times and to make plans, some only on paper, for when the home market will be the critical market. To a car-starved British public which reads a great deal about a shortage of steel, such an eventuality may seem a long way off. Nevertheless, distant as it may be, the manufacturers are not overlooking their home market strategy.

It was recently announced that a new Austin Seven is to be produced. Others of the Big Six have also curbed any ideas they may have had about standardization on one or two models. The Standard Motor Co can find diversity through the Triumph cars which it makes. Ford are still making the Prefect. Nuffield have gone on making and selling their Morris Minor. All companies are taking out insurance policies, it would seem, against too much dependence on cars of medium and large horse-power.

The Finances of the Church

The idea that the Church of England is financially supported by the State is a convenient fiction which it takes a lot to dispel. The Church Information Board is to be congratulated for producing an excellent little pamphlet[1] which is so clearly set out that the least ecclesiastical minded reader will have no excuse for ignorance of the true position.

This church 'balance sheet' has been prepared by a firm of Chartered Accountants after an examination of the accounts of the Church Commissioners, the Central Board of Finance of the Church of England, the Church of England Pensions Board, 43 dioceses, 34 church societies, and statistics gathered from 12,000 parishes.

The main headings of expenditure under costs, are living agents – the clergy; the maintenance of churches and services; missions; training men for the ministry; schools and training colleges; and administration. When we turn to revenue we find that half the income is a legacy from the past in the form of endowments, and half is provided by church people today – but the two combined are very far indeed from being anywhere near enough. The Church desperately needs more clergy, more churches in [illegible] new districts, and better stipends for incumbents. [illegible] pamphlet pertinently asks whether a net income [illegible]ss than £9 a week is really enough for a parish [illegible]t, and can a curate be expected to live on less [illegible] £6 a week? Where is the money coming from [illegible]nprove these conditions and for the thousand and [illegible] other needs which continually face the Church [illegible] its priests? This is a matter which demands the [illegible]ctical and sympathetic consideration not only of practising church people who are already giving all they can, but far more of those thousands whose membership is entirely nominal, except when they eagerly claim their rights on the occasion of a baptism, a marriage or a funeral. At such times they expect, quite rightly, a well-cared-for church, a dignified ceremony, the services of a parson; but very few of them stop to think that these essentials can only be provided if everyone who so lightheartedly describes himself as 'C. of E.' makes his due proper, and above all regular, contribution towards the Church of which he is a member.

[1] *The Work and Revenues of the Church of England.* 6d. net.

REVIEWS

Pioneers of British Life Assurance
By Hartley Withers, edited by Conan Nicholas

(Staples Press Ltd, London. 6*s* net)

A hundred years ago, abstinence from alcohol was thought to impair the constitution and shorten the expectation of life. In consequence, teetotallers were regarded as a bad 'risk' and were charged an extra premium on taking out a life policy. This attitude of the insurance companies annoyed a Mr Robert Warner, who determined to found an office in which abstainers could be separately insured. The result was the United Kingdom Provident Institution which so prospered, despite the doubters and detractors of the time, that it celebrated its centenary in 1940. To mark this event, Mr Hartley Withers was invited to write a short history of British life assurance. The war prevented its publication, and when Mr Withers died in 1948 he had not yet made the revisions to the later chapters which the lapse of time and the rapid march of events had necessitated. Accordingly, the present volume contains only the earlier chapters. These describe with the skill and literary charm which characterized all the author's work, the development of insurance against the general background of the eighteenth and early nineteenth centuries and unfold a story which should intrigue not only those directly connected with insurance, but everyone to whom the financial and economic life of the City is of interest.

British Economic History since 1760
by S. G. E. Lythe, M.A.

(Sir Isaac Pitman & Sons Ltd, London. 15*s* net)

Recent economic changes have been so far-reaching as to suggest that the last fifty years form a unique period in history. From Mr Lythe's survey of the industrial history of Britain covering the last 2[illegible] years, it is clear, however, that the impact of [illegible] industrial revolution, which was a process r[illegible] than a sudden change, was really much more s[illegible] in its effects on the everyday life of the comm[illegible] than any more recent economic events.

This text-book traces first of all the general tr[illegible] in the evolution of Britain's economy, to which [illegible] chapters are devoted, and then the main feature[illegible] the development of agriculture and transport. Ot[illegible] chapters deal separately with such subjects as labour organization, prices, wages, unemployment, population and industrial legislation.

Auditing Practice
by R. Robert Coomber, B.Sc.(Econ.), F.C.A., F.S.A.A.

(Macdonald & Evans Ltd, London. 21*s* net)

Many accountants consider themselves to be so expert at auditing that they seldom trouble to read any literature on the subject after qualifying. This is a dangerous attitude of mind because the duties of an auditor have become so diverse that actual experience, however varied, is not enough by itself but must be supplemented by regular reading. For those, then, who think that they know it all already, and also for those who have been deflected from the mainstream of the profession's activities by having to specialize in some other branch and who would welcome a clear and concise restatement of the practical side of audit procedure, this new work can be thoroughly recommended. As well as covering fully the audit of the usual records and the verification of assets and liabilities, there are useful chapters on, *inter alia*, provisions and reserves, the various forms of proprietorship from sole traders to holding companies, investigations and the auditor's liability. The last of these gives summaries of a number of cases, the subject of which has been the determination of the responsibilities of the auditor.

Principles of Accounting
by Stanley W. Rowland, LL.B., F.C.A.
(Fourth Edition by R. Glynne Williams, F.C.A.)

(The Donnington Press, St Albans, and The Gregg Publishing Co Ltd, London. 17*s* 6*d* net)

This useful text-book, originally edited by Mr Stanley W. Rowland, LL.B., F.C.A., has been revised in the present edition by Mr R. Glynne Williams, F.C.A. After a statement of general principles, expressed in a most readable form, the profit and loss account and balance sheet are considered in some detail. Then follow chapters on provisions, reserves and sinking funds, depreciation, divisible profits and dividends, the accounts of holding companies, published accounts and statutory and specialized accounts.

Two appendices reprint the sections of the Companies Act, 1948, relating to accounts and audits and the recommendations on accounting principles, issued at intervals in recent years, by The Institute of Chartered Accountants in England and Wales. In addition, the conscientious student may test his powers of assimilation, chapter by chapter, on the 194 questions, selected mainly from examination papers set by the Institute of Bankers and the University of London which make up the third and last appendix.

SHORTER NOTICE

INSURANCE BROKERAGE AND AGENCY, by Victor Dover, F.C.I.I., A.C.I.B., M.I.EX. (Stone & Cox Ltd, London. 12*s* 6*d* net.) This small book is described as a treatise on law and practice, and while there may be more elaborate and lengthy treatises on the law, it is doubtful whether the reader would find a more sagacious and entertaining account of the practice. Although the book is directed to those employed in insurance work, all those who insure (and who does not?) will find it illuminating.

FINANCE AND COMMERCE

Stock markets continue firm and apparently untroubled by political or economic events. The majority of investors appear prepared to keep out of markets until the dividend limitation situation, and with it the political outlook, is clearer.

Profit Inflation

Mr Philip A. Wright, the chairman of Patons & Baldwins Ltd, woollen yarn manufacturers, whose accounts we reprint this week, adds to the weight of criticism by leading industrialists, of the present taxation system. Mr Wright points out that the surplus brought into Section 1 of the profit and loss account, after excluding the trading results of the Shanghai branch and after reducing the United Kingdom stock valuation by £417,115, being the additional fall in value of wool and tops from April 28th, 1951, to June 11th, 1951, is still £1,370,902 in excess of last year's figure.

He emphasizes that this surplus must not be looked upon as a normal trading profit as it includes substantial moneys recovered from the sale on a rising market of cheaply-bought stocks. These stock profits, he says, are inevitable in times of inflation, making it essential that they be retained in the business if full employment is to be maintained.

He has no argument against governmental right to taxation of normal trading profits. But the insistence of the Revenue authorities on the assessment of profits computed by established accountancy practices, which ignore the effect of inflationary tendencies, has the same effect, he says, as a capital levy.

'Fallacious Theory'

Mr Wright has no sympathy with those who maintain that this 'capital attrition' can be met from outside sources. That theory, he declares, is fallacious 'for no money is likely to be forthcoming for stock financing in times of inflation unless assurances can be given that it will be used for the maintenance of a sound and fully productive business without the liability of its diversion to meet taxation'.

That section of the Millard Tucker report dealing with this matter, Mr Wright continues, 'showed clearly that the serious effect of the taxation of stock profits on the full employment policy was not visualized at all'. It is to be hoped, he says, that the Royal Commission on Taxation will take a more realistic view of the matter.

The chairman's statement summarizes the net taxation charge in the accounts of the last five years, showing the charge each year and the total of over £5 million for the five years. The relevance of the figures, however, would have been more clearly seen in the context of a profit summary over the years.

Rent Control

How far does £1 of rent go when received from rent-controlled premises? The directors of the London County Freehold and Leasehold Properties Ltd answer the question with a break-down of the actual expenditure on certain rent-controlled flats. It appears as follows:

HOW FAR DOES £1 OF RENT GO WHEN RECEIVED FROM RENT-CONTROLLED PREMISES?

Allocation of Expenditure

	£	s	d
General and water rates		7	1
Repairs		4	1
Amortisation		1	0
Services (fuel, porterage, gardening, etc.) and other outgoings		6	6
Ground rent		1	5½
	1	0	1½
Rent received from tenant	1	0	0
			1½
Loan interest		2	3½
Deficit		2	5

The above-mentioned figures represent a cross-section of expenditure, relating to certain flats let at 1939 controlled rents, extracted from the company's accounts for the year ended March 31st, 1950. No account has been taken of any reserve for contingencies or of preference dividend.

In many cases, the report points out, the loan interest is 100 per cent more than shown in this example.

A new departure this year is the recommendation of dividend in terms of pence per share. The payment is the same but is now 10·8*d* per share instead of 9 per cent. Mr T. J. Cullen, the chairman, maintains that dividends per cent of nominal capital are misleading when the amount subscribed, including substantial premiums, coupled with accumulated reserves, makes capital employed much larger than the nominal figure. In this case, capital employed at the beginning of the year was £4,281,472 as compared with £2,479,000 nominal.

Money Market

Applications for Treasury bills totalled £354,080,000 on August 10th and the market obtained 62 per cent of requirements. The average rate was 10*s* 2·78*d* per cent and this week's offer is maintained at £260 million. There is no call against Treasury deposit receipts.

PATONS & BALDWINS LIMITED

Shanghai Branch Figures shown separately from the Balance Sheet

	Cost	Depreciation	Book Value
	£	£	£
Land and Buildings, Motive Plant, Plant and Machinery	627,468	319,408	308,060
Stock-in-Trade			600,929
Sundry Debtors			19,336
Bank Balances and Cash			86,686
			1,015,011
Deduct			
Sundry Creditors and Provisions (including such provision as is necessary to exclude the surplus on the current year's trading of the Branch)			260,363
			£754,648

PATONS & BALDWINS LIMITED
Balance Sheet, April 28th, 1951

CAPITAL AND LIABILITIES

		1951 £ Authorized	1951 £ Issued	1950 Comparative Figures £ Authorized	1950 Comparative Figures £ Issued
Share Capital					
6½ per cent Cumulative Preference Stock		1,359,447	1,359,447	1,359,447	1,359,447
4 per cent Cumulative Redeemable Preference Stock ..		3,000,000	3,000,000	3,000,000	3,000,000
Ordinary Stock		2,638,829	2,638,829	2,638,829	2,638,829
Ordinary Shares of £1 each		1,724	—	1,724	—
		£7,000,000	6,998,276	£7,000,000	6,998,276
Reserves					
Capital					
Premium on Shares		2,627,560		2,627,560	
Less Cost of issuing £3,000,000 4 per cent First Mortgage Debenture Stock, 1960/75:					
Expenses	..£9,684				
Underwriting Commission ..	.. 75,000				
Discount	.. 60,000				
		144,684		—	
			2,482,876		2,627,560
Revenue (including proposed appropriations)					
General		2,000,000		2,000,000	
Contingencies	£3,554,648				
Less Book value of net assets dealt with separately – *See Note 1*	754,648				
		2,800,000		2,750,000	
Pensions		110,000		110,000	
		4,910,000		4,860,000	
Profit and Loss Account		459,120		377,905	
			5,369,120		5,237,905
			14,850,272		14,863,741
Future Taxation: Reserve for Income Tax 1952/53 ..			1,180,000		550,000
4 per cent First Mortgage Debenture Stock, 1960/75			3,000,000		500,000
Current Liabilities					
Bank Overdrafts and Acceptance Credits		2,353,334		2,536,571	
Sundry Creditors		831,271		565,840	
Current Taxation, British, Dominion and Foreign ..		1,831,432		1,158,608	
Bonus to Employees		104,000		110,000	
Proposed Ordinary Final Dividend and Bonus ..		207,808		217,703	
			5,327,845		4,588,722
			£24,358,117		£20,502,463

PROPERTY AND ASSETS

	1951 £ Cost	1951 £ Depreciation	1951 £	1950 Comparative Figures £ Cost	1950 Comparative Figures £ Depreciation	1950 Comparative Figures £
Fixed Assets						
Land, Reservoirs and Buildings ..	1,689,963	896,418	793,545	2,058,489	1,041,149	1,017,340
Motive Plant, Plant and Machinery	2,141,564	1,508,985	632,579	2,448,177	1,719,163	729,014
Darlington Factory:						
Land, Reservoirs and Buildings	5,098,898	217,647	4,881,251	4,463,796	125,082	4,338,714
Motive Plant, Plant and Machinery	2,134,643	349,861	1,784,782	1,461,766	233,081	1,228,685
	£11,065,068	£2,972,911	8,092,157	10,432,228	£3,118,475	7,313,753
Subsidiary Companies						
Shares at cost		1,021			100	
Amounts owing on Current Account .. .. (Representing current assets £34,648 less current liabilities £14,701)		18,926			18,546	
		———	19,947		———	18,646
Current Assets						
Stock-in-Trade, as certified by officials of the Company ..		13,391,677			10,401,527	
Sundry Debtors and Bills Receivable	2,484,277			1,991,818		
Less General Reserve	17,000			17,000		
		2,467,277			1,974,818	
Bank Balances and Cash		199,143			605,803	
Trade Investment at cost ..		187,916			187,916	
			16,246,013			13,170,064
			£24,358,117			£20,502,463

PATONS & BALDWINS LIMITED

Profit and Loss Account for the year ended April 28th, 1951

	1951 £	1951 £	1950 Comparative Figures £	1950 Comparative Figures £
Section I				
Depreciation		279,722		223,459
Directors' Emoluments:				
For services as Directors as fixed by the Company's Articles of Association	4,418		4,300	
For Managerial Services including Pensions Scheme contributions	69,441	73,859	62,303	66,603
Pensions for Managerial Services to a retired Director and to Directors' Widows		3,750		3,938
Bonus to Employees		127,955		110,000
Debenture Interest (gross)		97,387		20,000
Balance carried down		3,289,658		2,335,980
		£3,872,331		£2,759,980
Section II				
Taxation based on the Income of the year:				
Dominion and Foreign		21,840		30,160
British				
Income Tax	1,668,149		918,764	
Less Relief by way of Initial Allowances under Income Tax Act, 1945, for Capital Expenditure during year	166,141	1,502,008	176,380	742,384
Profits Tax		384,518		213,497
Net Additional Taxation due to Profits Tax on distributions to Stockholders per Section III		103,057		74,018
		2,011,423		1,060,059
Balance carried down		1,278,235		1,275,921
		£3,289,658		£2,335,980
Section III				
Dividends paid and proposed, less Income Tax:				
Dividend on 6½ per cent Cumulative Preference Stock, year to April 30th, 1951 (already paid)	47,496		48,600	
Dividend on 4 per cent Cumulative Redeemable Preference Stock, year to April 30th, 1951 (already paid)	64,500	111,996	74,250	122,850
Interim Dividend of 5 per cent on Ordinary Stock (already paid)	72,568		72,568	
Proposed Final Dividend of 10 per cent on Ordinary Stock	138,539		145,135	
Proposed Bonus of 5 per cent on Ordinary Stock	69,269	280,376	72,568	290,271
		392,372		413,121
Proposed Transfer to Contingencies Reserve:				
From Relief under Income Tax Act, 1945	166,141		176,380	
From Profit on Exchange	17,762		177,492	
From Surplus on sale of Property	19,873		103,956	
From Surplus	600,872	804,648	292,172	750,000
Balance carried forward to next year		459,120		377,905
		£1,656,140		£1,541,026

	1951 £	1951 £	1950 Comparative Figures £	1950 Comparative Figures £
Surplus, after making such provision as is necessary to exclude the surplus on the current year's trading of the Shanghai Branch		3,826,061		2,455,159
Profit of Subsidiary Companies		8,635		23,373
Surplus on sale of Property	19,873		103,956	
Profit on Exchange – Canada *and* U.S.A.	17,762	37,635	177,492	281,448
		£3,872,331		£2,759,980
Balance brought down		3,289,658		2,335,980
		£3,289,658		£2,335,980
Balance brought down		1,278,235		1,275,921
Balance brought forward from last year		377,905		265,105
		£1,656,140		£1,541,026

Signed on behalf of the Board

PHILIP A. WRIGHT,
A. FORRESTER-PATON, } *Directors.*

CURRENT LAW

Breach of Contract: Measure of Damages

The Accountant for November 11th, 1950, gave briefly the decision of Devlin, J., in *Biggin & Co Ltd and Another v. Permanite Ltd (Berry Wiggins & Co Ltd, Third Parties)* in the following circumstances. The plaintiffs had passed to the defendants an order for a quantity of adhesive material for use with roofing felt, which was sold to the Netherlands Government. The material was actually supplied by the third parties. The material was defective, with the result that the Netherlands Government claimed damages and accepted the sum of £43,000 and costs from the plaintiffs. The latter sued the defendants and Devlin, J., held that the damage suffered by the ultimate purchaser could not be taken as the measure of liability under the earlier contracts, that the measure of damages was the difference between the value of the goods if they had been free from defect and the value as supplied.

The Court of Appeal held that although the amount paid by the plaintiffs was not conclusive of the extent of the defendants' liability, yet, if it was reasonable, it should be so taken. In this case the settlement was reasonable and thus the defendants were liable in the sum of £43,000 plus costs (*Law Times*, June 8th, 1951).

Company Liquidation: Surplus Assets

In the Palatine Court recently His Honour Sir Leonard Stone, V.C., decided an interesting question as to the rights of different classes of shareholders to participate in surplus assets. The original capital of the company consisted of ordinary shares and preference shares, preferential as regards capital, but not dividend, in priority to the ordinary shares in a winding-up or otherwise. No preference rate of dividend was fixed. Later, new preference shares were issued to carry a fixed dividend and preferential only as regards dividend.

In the liquidation, surpluses of £1,551, being undistributed profits, and £28,738, being the sum to be realized on the sale of the assets, were left. The ordinary shareholders contended that the second fund was divisible among them alone; but admitted that the original preference shareholders were entitled to share equally with them in the first fund. These latter argued, however, that they were entitled to share with the ordinary shareholders in both surpluses *pari passu*.

The learned judge held that the memorandum was an exhaustive definition of the rights of the original preference shareholders as regards capital and that they had no right to participate in the second fund; but having no preferential rights as to dividend, they were entitled to share with the ordinary shareholders in the first surplus. Further, he held that the special resolution by which the new preference shares were issued was an exhaustive definition of the rights of the holders of those shares as regards dividend only, and thus while not entitled to share in the first fund, they were entitled to share with the ordinary shareholders in the second (*Re A. Harrison Ltd, Walker v. Forshaw* (*Law Journal*, June 15th, 1951)).

Transfer of Charge

A. transferred to B. a building subject to a registered charge in favour of a building society. The deed of transfer provided that B. would duly pay the balance of the principal owing, together with interest; it was signed, sealed and delivered by A. and B., but the society was not a party. The payments fell into arrear and the society sought to enforce the covenant by B. to pay.

Vaisey, J., held that the transfer was a deed of a quasi-public nature, analogous to a deed-poll; that, therefore, while the society were not a party, they could nevertheless enforce the covenant against B. (*Chelsea and Walham Green Building Society v. Armstrong* (*Law Times*, July 6th, 1951)).

Companies: Scheme of Arrangement

A company petitioned for confirmation of a scheme of arrangement under Section 206 of the Companies Act, 1948. In accordance with Section 207 (1) (*a*) of the Act, a statement was included with the notice convening the meeting to the effect that the directors had no interest in the scheme other than as members. The statement did not give the nature and extent of the directors' holdings. The First Division of the Court of Session held that the statement was inadequate. The Lord President said that disclosure of the shares or interests registered in the directors' own names was not enough; that shares and other interests registered in the names of banks or nominee companies or otherwise in trust must also be disclosed to comply with the section (*Re Coltness Iron Co Ltd* (*Law Journal*, July 13th, 1951)).

Capital or Income

In *Re Winder's Will Trusts, Westminster Bank Ltd v. Fausset and Another* (*Law Journal*, July 13th, 1951) the question for decision was whether £1,000 British Transport stock received by the estate as a special profits dividend, in respect of the testator's holdings in a company concerned with passenger road transport and road haulage undertakings, was capital or income. It was held by Romer, J., that as the dividend was in respect of a transaction completed before the testator died and payable in respect of a date during his lifetime, it should be regarded as income accrued before his death even though it was not in fact paid until after his death; it should, therefore, be regarded as capital of the estate for purposes of the will. The learned judge distinguished *Re Sechiari*, which was followed in *Re Kleinwort's Settlements*, mentioned briefly in *The Accountant* for July 28th, 1951.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Comparative Figures

SIR, – Mr E. Harman's article in your issue of August 11th does us all a service by drawing attention to the importance of publishing fair comparisons, and mention of the average capital employed against the figure of trading profit would be most useful. May I, however, enter a word of caution. If we try to make the published figures tell too much by 'adjustments' are we not in danger of 'adjusting out' all changes and finishing in triumph by showing exactly the same figures for year one and year two? The object of the comparison is to show changes. Showing comparative figures, and giving supplementary information as to the cause of such changes, are two different things.

It is, of course, necessary to adjust the previous year's figures for comparative purposes where there has been a change in the basis of accounting, but I suggest that the effect of changes in the business should be left reflected in the figures and the explanations given in the chairman's speech.

Yours faithfully,

London, EC2. D. E. F. GREEN.

'Depreciation and the Future'

SIR, – Mr H. Hodgson's article (July 28th issue), like so many on the same subject, appears to me to deal with only one facet of the problem of inflation. It concentrates attention on the charge which should be made in the profit and loss account to provide for the high replacement cost of fixed assets, and completely ignores the equally pertinent question of the decrease in purchasing power of that part of a company's capital invested in net current assets.

Surely, to arrive at a profit which, subject to taxation, is distributable, the following provisions should be made in the accounts:

(*a*) Normal depreciation of fixed assets on the basis of original cost.

(*b*) Increased provision for higher replacement costs 'required to keep costs in line with current values'.

(*c*) Provision for decrease in purchasing power of net current assets (measured, say, by applying the percentage decrease in purchasing power of money to the net current asset figure at the beginning of the year).

It is submitted that:

(1) Normal depreciation on original cost plus the 'increased provision required to keep costs in line with current values' is the correct economic charge for depreciation, because it represents the depreciation charge of a new but exactly similar company entering the industry. Certainly, if competition prevails, it would not be feasible to pass on to the customer *twice* the increased provision.

(2) By making a further provision for the decrease in the purchasing power of net current assets real capital is maintained and no further provisions seem to be necessary.

Yours faithfully,

London, SW19. W. B. EVANS.

Directors' Benefits

SIR, – With reference to 'Resident's' inquiry (issue July 28th) regarding benefits received by directors engaged in hotel management, the experience of a managing director of a first-class residential establishment in London may be of assistance.

An arrangement considered reasonable within the provisions of the Finance Act, 1948, was agreed on the following basis: (*a*) that the 'luxury' element be disregarded and the value of a suite provided for the director be based on Schedule A net annual value, or, failing that, the rateable value (either actual or estimated). This arrangement was based on Section 40 (3). Nominal amounts only were brought in to cover the service of maids, waiters, porters, liftmen, etc., and the meals were assessed at cost, either actual or estimated. (*b*) H.M. Inspector would not agree to the view that meals taken in the restaurant qualified for exemption as 'canteen meals'.

As an employee, presumably earning less than £2,000 per annum, a resident housekeeper cannot be assessed for benefits in accordance with Section 41 (3) of the Act. Any assessment should therefore be resisted unless the director's agreement with the company provides for meals for his wife.

Yours faithfully,

F. W. HUGHES,

Pinner, Middx. *Incorporated Accountant.*

Purchase Records

SIR, – I have read with interest your article under the above heading, and also the letter from Mr Shanks, in your issue of July 21st.

Surely the inclusion in a monthly or period account of unpassed invoices does not necessitate the passing of these invoices for payment.

As I view the matter, such accounts are prepared for the ascertaining of a trend of the business and speed is an essential. It may even be necessary to enter items from goods inwards sheets when invoices had not even been received in order to prepare the accounts speedily.

Payment is normally made from suppliers' statements which should not be passed until the invoices have been properly authorized.

The holding up of payment of an invoice because of a query with the supplier should not preclude the taking of a discount providing it is the supplier who is incorrect.

Yours faithfully,

Iver, Bucks. H. J. FINDEN-CROFTS.

Orthodox Profits

SIR, – Surely Mr H. A. Briscoe, in the third paragraph of his letter in your issue of August 4th, has hit the nail upon the head when he states that 'there is a world of goods and a world of money, and the two must not be mixed'. That, in my opinion, is the crux of the matter and so long as the accounts that are produced bear the symbol '£' at the head of the columns then they must record the true monetary profit. Let the 'replacement' school produce their accounts in ounces of gold or pounds of sugar and I have no great quarrel, though I do not envy them their task and I am not sure that the layman would appreciate the result. This is, in essence, what Mr Jeffery English, in his article in the same issue, enjoins us to do, but where are we to find our stable unit?

As to the political and taxation aspects, to which Mr English refers at some length at the end of his article, I fear that it would require no great ingenuity on the part of a Socialist Chancellor of the exchequer to produce a convincing argument for a 100 per cent tax on the 'inflation' element of the profits. And what a gift to left-wing propagandists to present them with the opportunity of saying that, out of a total profit of Fickles 16,950, Fickles 9,325 arose solely from inflation!

One last point. Mr English infers that dividend policy should be dictated by what he calls true profit and the inflation element of profit ignored for this purpose. Does he then propose to pay the dividend, so restricted, in money which has itself depreciated to a similar extent? If so, is not the poor equity holder suffering inflation twice over? If not, with what is the dividend to be paid? Barrels of apples?

Yours faithfully,

Norwich. A. B. C. DENMAN, A.C.A.

SIR, – Mr Jeffery English (*The Accountant*, August 4th, 1951) cannot, by his 'can't you duffers see?' attitude, conceal the confusion with which he is seized. In his Schedule No. 2, he purports to compare the effect of fluctuating exchange rates on the 'identical year's trading' dealt with at a fixed rate in his Schedule No. 1. To do so his first step is to commence with a new set of currency figures, on the assumption that the price level in Fickles moves exactly in sympathy with the exchange rate (he will probably reply that it was the exchange rate which moved in sympathy with the price level, but for my present purpose the hen and egg argument is irrelevant). This fatuous assumption is necessary to enable him to show the same sterling figures, except for cash, and so be able to proceed with his article.

If the exercise is one in currency conversion, what Mr English should have done was to take the same figures in Fickles and show the position at the fixed rate compared with the position at a fluctuating rate. The hypothetical examinee would be quite correct in showing (Schedule No. 3) a profit in Fickles of 16,950 whatever may be the exchange rates. There would be something wrong with the branch books if they did not show that figure. The 'loss on exchange' *in Fickles* which appears in Schedule No. 4 as 2,725 is something which would need a lot of explanation to the branch manager in 'Fickledom', and Mr English would be wise to deal with it by correspondence rather than a personal visit (especially if the climate is a tropical one). Where Mr English is rather unfair to the examinee is in not showing how the examinee would proceed to complete his work.

In Schedule No. 4 Mr English confuses himself by pretending that he is still dealing with currency conversion, whereas he is really attempting to deal with the entirely different question of internal price levels. Mr English has become 'Mr Fickle'. Money, 'the one truly depreciating asset' (*sic*), is money whether it is Fickles or pounds and the accounting process of expressing one kind of money in terms of another kind has nothing to do with the accounting arguments about the relation between money and the things it will buy. What Mr English is suggesting is that we can have a series of exchange rates between bats and pounds, balls and pounds, and wickets and pounds, but the game isn't cricket because only one side is to be allowed to make runs – the exchange rates between loans and pounds, pensions and pounds, and dividends and pounds are to be ignored.

Possibly Mr English has been pondering the profound pronouncement which Mr F. Sewell Bray made to the Australian Congress on Accounting in 1949 (*The Accounting Mission*, Cambridge University Press):

> 'In the very infancy of the accounting art we cannot escape the animadversion upon the pragmatic nature of its sanctions which in maturity presses on us with the more severity. It lends to the realities of exchange dealings a cloak of symbols.'

If we decide to abandon the cloak we must take it right off and not merely insert a few peep-holes where it suits us to do so. We must also find alternative clothing, towards which Mr English hasn't even made his loom.

Yours faithfully,

1880 AND ALL THAT.

SIR, – I should like, if I may, to trespass once again in your columns.

Is not the real point at issue upon this subject between pro- and anti-Briscovians simply this, that it is impossible to tell what everyone will accept as the truth in two currencies at once if one is unstable?

To take an example from Mr English and his Fickles: if an asset costs £100 and Fickles 2,000, and it is depreciated at 10 per cent per annum, we shall write off Fickles 200 a year but convert at 20 to £10, regardless of the current rate of Fickles. We shall also, if Fickles have fallen during the year, throw up a sterling exchange loss. In other words, we shall show a 'true and fair' profit (or loss) in sterling, even if we cannot do so in Fickles as well.

In Mr English's amusing examples, sterling is steady and Fickles are falling. In our brave new

world, sterling also is falling. Thus the first cost of our assets on the one hand, and the annual charge for depreciation of those assets on the other, are really in different 'sterlings' and the same difficult problem arises that we cannot tell the truth in both. Mr Briscoe's answer to the old question 'What is truth?' is not the same as mine – as Merlin said, it is this to me and that to thee; but as I see it, unless we make allowance for replacement costs our profits are overstated and we are deceiving ourselves. Nor, as Mr English so rightly says, will either the Revenue or the trouble-makers bother overmuch to disillusion us.

Incidentally, an odd position arises versus the Revenue in that if, due to inflation, a company sells an asset for more than cost, a tax-free 'capital profit' arises; while if it keeps it to wear out (and therefore in effect sells it by instalments) the whole of the profit is taxable.

Yours faithfully,
New Malden, Surrey. J. F. JUPP.

Estate Duty and Family Businesses

SIR, – I am rather surprised to find in paragraph 7 of the report on Statistical Investigation by the Board of Inland Revenue, a suggestion that it may be possible on death for estate duty to be paid by means of a loan from the company itself. This report was carried out by the Inland Revenue, who would be aware of all aspects of taxation, and such a suggestion seems to ignore completely the penal effect of profits tax on distributed profits and of direction under Section 21 of the Finance Act, 1922.

I should be interested to learn whether other members feel that this suggestion of the Board of Inland Revenue represents a new policy.

Yours faithfully,
Birmingham, 3. G. M. SHERWOOD.

[The Board of Inland Revenue say that the sentence in the paragraph in question is merely a statement of how in fact money may be found to pay the duty. It has no implications regarding the treatment, for profits tax purposes, of loans to its members by a director-controlled company, which are, of course, governed by the provisions of Section 36, Finance Act, 1947. – Editor.]

Income Tax and Social Security

SIR, – With reference to the leading article in the issue of June 30th in which it was mentioned that Lady Rhys-Williams was the originator of the idea of linking income-tax with social security payments and contributions, may I say that in 1941 I was engaged in research into the simplification of taxation including the linking of social security with taxation and on November 24th, 1942, one week before the Beveridge Report on social security was published, a memorandum was sent to the then Chancellor of the Exchequer.

The 'Hollamby Taxation Scheme' dealt in particular with two aspects of the simplification of taxation, i.e. trading profits by the apportionment on a time basis of the profits of the accounting periods to cover the tax year to April 5th, amended to March 31st; and for individual taxation: (i) income-tax at a flat rate, (ii) payment through the Post Office and/or bankers of (*a*) income-tax allowances and reliefs and (*b*) national insurance benefits and grants.

Yours faithfully,
A. HOLLAMBY ROBINSON.
Chesham, Bucks.

Private Companies and Sur-tax

SIR, – I was interested in Mr Ross's letter under the above heading in your issue of July 28th, as I had already voiced a protest against the anomaly to which he draws attention, in a letter headed 'Profits tax and Section 21, Finance Act, 1922' published by you on January 28th, 1950, over the *nom de plume* 'Fair Play'.

With reference to Mr Ross's last paragraph he may be interested to know that I have a letter from an Inspector of Taxes kindly informing me that

> 'it is not obligatory on the Special Commissioners to apply Section 21 and there is no provision for a taxpayer to elect for such an apportionment'.

Section 21 cannot therefore be used to save tax and it would be interesting to hear from practitioners whether in fact any Section 21 assessments have been made in recent years.

Yours faithfully,
London, W1. JOHN R. WARD.

The Qualified Accountant in Industry

SIR, – I was interested in the letter from my well-known namesake, Mr T. G. Rose, published in your issue of July 21st, and I am sure that he is right in his view that the present training for professional examinations is not in itself sufficient to produce good industrial accountants. However, I do not think that his proposals, useful as they are, will fill the bill. The essential requirement is *practical experience*.

The newly-qualified professional accountant, straight from his text-books and flushed with examination success, would be quite lost if dumped straight into a medium or large industrial undertaking and given control of either the wages department, the cost office, or the accounts department. Mechanization would leave him groggy, and he would not have much idea of staff control and labour relations, organization and methods, budgetary control, or a host of other practical considerations. Without real practical knowledge of such matters, it is idle to talk of 'management accounting' or attempt the speedy preparation of monthly accounts. If it takes five years to produce a qualified professional accountant, then in my opinion it takes an *additional* 3–5 years' training in industry to produce an adequately-trained industrial accountant.

Theoretical and book training in these subjects are, of course, of some use, and to that extent Mr T. G. Rose's proposals are good; but without practical

experience, such learning would be almost worse than useless. The quickest and best way for a qualified professional accountant to learn industrial accountancy is the same way as to learn to swim – plunge in the deep end and find your own way out. There is absolutely no substitute for sound practical experience.

Yours faithfully,

Ilford, Essex. J. ROSE, A.C.A.

SIR, – My attention has been drawn to Sir Harold Howitt's Cantor Lecture on 'Training for accountancy' which was published in your issue of August 11th. May I say that I think you have done a great service to the profession in giving publicity to Sir Harold's lecture, as it presents an admirably clear and unprejudiced statement as to the present training of those who enter the profession.

It will be noted that Sir Harold recognizes two main branches in accountancy: (*a*) accountants in public practice, and (*b*) accountants engaged in industry, etc., and it is clear from the figures that he gives that the second group – if we include in it those accountants who have not taken the examinations of the bodies he mentions – must be much larger than the first. At the conclusion of his paper Sir Harold suggests that if the professional accountant is to 'keep abreast of the requirements of industry in matters such as management, costing, financial forecasting, etc.', he should specialize in them after taking his ordinary accountancy qualification. This amounts to the proposal contained in my letter to you which you published in your issue of July 21st, but I should like to make it clear that I had not read Sir Harold's Cantor Lecture at the time I made the suggestion.

I would support Sir Harold's contention that the qualified professional accountant would find it comparatively simple to build on the foundation which he has already acquired, the additional technique that he should possess to deal with monthly accountancy from the management standpoint. The difficulty lies in the fact that at the present time no specific recommendations exist as to what that technique should be.

Yours faithfully,

London, NW8. T. G. ROSE.

ADDITIONS TO THE INSTITUTE'S LIBRARY

This subject index of books recently added to the library of The Institute of Chartered Accountants in England and Wales is supplementary to that published in 'The Accountant' dated May 19th, 1951, and to the library's 'Short List' dated June 1950. Copies of the latter may be obtained gratis from the Librarian.

ACCOUNTANCY: The accounting vista – company and national, by Sir F. J. Alban (Chartered Institute of Secretaries), 1950. (Presented.) Accountancy and cost accountancy; a detailed description of qualifications, training and prospects of employment (Ministry of Labour. Careers for men and women series, 1). (1951.) (H.M.S.O. 4*d*).

ACCOUNTANCY. EXAMINATION PAPERS: Specimen answers to the questions set at the Chartered Intermediate examination, November 1950, with copies of the questions. (Study Services Ltd), 1951. (Study Services, 6*s*).

ACCOUNTING: Accounting, part 1, by S. W. Rowland and B. Magee. 5th edition, 1949. (Gee, 15*s*.) Accounting techniques used in published corporate annual reports. Third annual survey by the research department, American Institute of Accountants, of current practice of more than 525 large American corporations. New York, 1949. (A.I.A., $10.) Accounting trends and techniques in published corporate annual reports. 4th annual cumulative survey of the accounting aspects of 525 corporate annual reports, 1949 to 1950. Prepared by the Research Department, American Institute of Accountants, New York, 1950. (A.I.A., $10.) Advanced accounting, by R. K. Yorston, E. B. Smyth, S. R. Brown. 2nd edition, 3 volumes. Sydney, 1949–50. The structure of industrial accounts, by K. W. Bevan, A.C.A. (Society of Incorporated Accountants.) (Typescript.), 1950. (Presented.) Studies in accounting, edited on behalf of the Association of University Teachers of Accounting, by W. T. Baxter, 1950. (Sweet & Maxwell, 23*s* 6*d*.) The accounting mission, by F. S. Bray, F.C.A., Carlton, Victoria, 1951. (Presented.) Fundamentals of accounting, by H. H. Wade. 3rd edition. New York, 1951. (Chapman & Hall Ltd, London, 38*s*.) Specialized accounting systems, including construction and installation, by H. H. Bailey, 2nd edition. New York, 1951. (Chapman & Hall Ltd, London, 48*s*).

ADVERTISING: Advertising – a tool for management (British Institute of Management. Marketing and Sales Management series, 1), 1950. (B.I.M., 2*s* 6*d*.) Lane's Advertising administration; principles and practice. 2nd edition, by N. T. Sandbrook. 1951. (Butterworth, 15*s*).

ARCHITECTS' ACCOUNTS: Instructions: standardized accounting for architects (American Institute of Architects). Washington, D.C., 1949.

AUDITING: Auditing theory and practice, by R. A. Irish. Sydney, 1948. Audit working papers, by M. E. Peloubet. New York, 1949. (McGraw-Hill, 72*s* 6*d*.) The auditor's report: its evolution in the U.S.A., by G. Cochrane, F.C.A. (Institute of Chartered Accountants in England and Wales. Summer Course, 1950.) 1950. Audits by Certified Public Accountants, their nature and significance (American Institute of Accountants). New York, 1950. (A.I.A., 50 cents.) Notes for audit staff, by C. H. S. Lewis, F.C.A. 2nd edition. 1950. (Gee, 8*s* 6*d*.) A summary of auditing case law, by E. M. Taylor, F.C.A. 6th edition. 1950. (Textbooks, 7*s* 6*d*.) Auditing practice, by R. R. Coomber. 1951. (Macdonald & Evans, 21*s*.) Audits by Certified Public Accountants (translated into Greek, by J. L. Chryssochon). Athenai, 1951. (Presented).

BAKERS: Modern management for bakers and confectioners, book 2, by E. V. Amsdon and H. E. Turner. 1951. (Trade Technical Services, 10*s* 6*d*).

BANKING: Modern banking, by R. S. Sayers. 3rd edition. Oxford, 1951. (O.U.P., 17*s* 6*d*).

BANKRUPTCY: Examination questions on bankruptcy and deeds of arrangements together with answers thereto, by R. Byrne, A.C.A. 3rd edition. Woking, 1948. (Students' Publications, 5*s*.) Insolvency practice, by J. Snaith. 1950. (Gee, 25*s*.) Ranking, Spicer, and Pegler's the rights and duties of liquidators, trustees, and receivers. 21st edition, by H. A. R. J. Wilson and R. D. Penfold. 1951. (H.F.L., 21*s*).

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on August 1st, 1951, who completed their Fellowship or Membership before August 14th, 1951.

Associates elected Fellows

Barlow, Robert; 1937, A.C.A.; (Toy, Campbell & Barlow), 40 Duke Street, Chelmsford, and at Maldon.

Black, Kenneth MacNeill; 1936, A.C.A.; (Mills & Black), Imperial Chambers, Dale Road, Matlock, and at Bakewell.

Brown, George Robert; 1911, A.C.A.; (Sissons, Platt & Co), Mazda Buildings, Campo Lane, Sheffield, 1.

Chapman, Walter Brown, M.B.E.; 1939, A.C.A.; (H. Waissen Wilson & Co), 20 Copthall Avenue, London, EC2, and at Brighton, Henfield and Spalding.

Coombes, Geoffrey John; 1936, A.C.A.; (Edmonds & Co), 32 Holyrood Street, Newport, Isle of Wight, and at Ryde, Shanklin and Ventnor.

Culshaw, Laurence John; 1931, A.C.A.; (*Deloitte, Plender, Griffiths & Co), 5 London Wall Buildings, Finsbury Circus, London, EC2; (for other towns see *Deloitte, Plender, Griffiths & Co and *Deloitte, Plender, Griffiths, Annan & Co).

Eltringham, Joseph Harold, T.D., B.COM.; 1938, A.C.A.; (*Alsop & Eltringham), 22 Duke Street, Darlington.

Grant, Peter Graham; 1938, A.C.A.; (Cole, Dickin & Hills), 16 Southgate, Sleaford, and at Grimsby.

Hope, Wilfred; 1929, A.C.A.; (King, Hope & Co), 6 Dovecot Street, Stockton-on-Tees, and at Darlington, Northallerton and Richmond, Yorks.

Hort, Philip William; 1935, A.C.A.; (*Edward Thomas Collins & Son), 28 Baldwin Street, Bristol, 1, and at Cardiff.

Jackson, Stanley Bertram; 1941, A.C.A.; (Cotterill, Kirk, Salt & Co), Stock Exchange Buildings, 33 Great Charles Street, Birmingham, 3.

Lowe, Arthur Whitaker; 1926, A.C.A.; (William Chadwick & Co), 31 Dale Street, Liverpool, 2.

Mearns, Joseph; 1925, A.C.A.; (Jackson, Pixley & Co), Kent House, Telegraph Street, London, EC2.

Millican, John Neville Bagnall; 1937, A.C.A.; (John Gordon Walton & Co), Legal & General Building, 7 South Parade, Leeds, 1.

Newman, Eric John, M.A.; 1940, A.C.A.; (Newman, Biggs & Co), 14 Harborne Road, Five Ways, Edgbaston, Birmingham, 15.

Newman, Henry; 1939, A.C.A.; (Lancaster, Newman & Co), Finsbury Pavement House, 120 Moorgate, London, EC2.

Partridge, Ronald Frank James; 1939, A.C.A.; (Iion V. Cummings & Co), 33 Market Place, Romford, and at London.

Prior, Ralph Frederick; 1936, A.C.A.; (*Prior & Palmer), General Buildings, Bridlesmith Gate, Nottingham.

Sherwood, Sidney; 1946, A.C.A.; (S. Sherwood & Co), 30 Addiscombe Grove, East Croydon, Surrey.

Smith, Norman Webster; 1938, A.C.A.; (*Edwin Hubbard & Co), Cromwell House, 6–9 Surrey Street, Strand, London, WC2.

Tabbernor, Alan William Stewart; 1923, A.C.A.; (Jackson, Pixley & Co), Kent House, Telegraph Street, London, EC2.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Wilks, Geoffrey Walford, T.D.; 1928, A.C.A.; (*Whinney, Smith & Whinney), 4B Frederick's Place, Old Jewry, London, EC2; (for other towns see *Whinney, Murray & Co, *Whinney, Murray, Baguley & Co, and *Whinney, Smith & Whinney).

(Not in England or Wales)

Murphy, George Arrowsmith; 1926, A.C.A.; (Turquand, Youngs & Co), P.O. Box 148, Penang, and at Singapore, Kuala Lumpur, Ipoh and Jesselton (North Borneo).

Vachha, Homy Jamshedji, B.A.; 1935, A.C.A.; (*A. F. Ferguson & Co), Allahabad Bank Building, Apollo Street, Fort, Bombay, and at Karachi, Lahore, New Delhi and Rawalpindi.

Admitted as Associates
(Not in Practice)

Brown, Stanley George, with Blackburns, Robson, Coates & Co, 59 New Cavendish Street, London, W1.

Mullens, Peter Arthur Glanville, B.A., with *Deloitte, Plender, Griffiths & Co, Midland Bank Chambers, 97 Bute Street, Cardiff.

Orchard, Geoffrey Ross, B.A., with Armistead & Hylton, 10 East Parade, Leeds, 1.

Former Member readmitted to Membership

Lull, Jag Mohan, director, Imperial Chemical Industries (India) Ltd, 18 Strand Road, Calcutta.

Disciplinary Committee

Finding and decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the Supplemental Royal Charter of December 21st, 1948, at a hearing held on July 4th, 1951.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that four members of the Institute, in partnership together, had been guilty of an act or acts discreditable to a public accountant or a member of the Institute within the meaning of Section 21, subsection (3) of the Royal Charter, in that they had circulated or caused or allowed to be circulated letters in terms capable of construction as advertising their business or soliciting new business to companies, firms or persons with whom they had no association in matters of a professional character, and in particular to a named limited company for whom they did not act in a professional capacity and with whom they had no professional relationship, so as to render themselves liable to exclusion or suspension from membership of the Institute.

The Committee found that the formal complaint was not proved against two of the partners. The Committee found that the complaint was proved against the other two partners and it was decided that they be reprimanded and admonished respectively. It was further decided that there existed special circumstances which justified the omission of any names from the publication of the finding and decision.

Note. – The letters which were the subject of the above complaint were sent by the firm to members of

a trade association of which the firm were secretaries. The letters were printed on the firm's notepaper and gave particulars of a change in the constitution of the firm and a change of address of an office of the firm in another town.

APPEAL COMMITTEE

Finding and decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the Supplementary Royal Charter of December 21st, 1948, at a hearing held on July 5th, 1951.

The Appeal Committee heard an appeal against the finding and decision of the Disciplinary Committee of the Council upon the following formal complaints preferred by the Investigation Committee of the Council to the Disciplinary Committee:

That William Evan Harries, A.C.A., has been guilty of acts or defaults discreditable to a member of the Institute within the meaning of Section 21, subsection (3) of the Royal Charter, in that (*a*) on the 17th day of December, 1947, while excluded from membership of the Institute he signed a balance sheet using the designation chartered accountant; and (*b*) having acted in a professional capacity in relation to the affairs of a farmer, he refused or neglected, despite repeated requests, to answer letters or return books and records to enable accounts to be produced, so as to render himself liable to exclusion or suspension from membership of the Institute.

Having considered the record of the evidence given before and documents produced to the Disciplinary Committee and having heard further representations by Mr William Evan Harries in mitigation of the decision of the Disciplinary Committee to exclude him from membership of the Institute, the Appeal Committee affirmed the finding and decision of the Disciplinary Committee that the formal complaints against Mr William Evan Harries had been proved both under headings (*a*) and (*b*) and that Mr William Evan Harries, of Priory House, Leominster, Herefordshire, be excluded from membership of the Institute.

Personal

MR W. H. W. GREENSLADE, F.C.A., practising as GREENSLADE & Co, Chartered Accountants, of 297–302 Dashwood House, Old Broad Street, London, EC2, and Drapery Buildings, The Drapery, Northampton, announces that he has taken into partnership Mr R. S. WALDRON, A.C.A., who has been a member of his staff for some years. The name of the firm will remain unchanged.

MESSRS HILL, WOOLDRIDGE & Co, Chartered Accountants, of 27–28 Finsbury Square, EC2, and 107 Hindes Road, Harrow, Middlesex, announce that Mr J. M. HILL, F.C.A., retired from the partnership on August 13th on accepting an appointment with Gresham Trust Ltd, Basildon House, Moorgate, EC2. The firm name will remain unchanged, and the partnership business will continue to be carried on by the remaining partners, Messrs W. E. WOOLDRIDGE, F.C.A., J. C. HEATH, F.C.A., A.C.I.S., and N. WOOLDRIDGE, F.C.A.

Obituary

WALTER PARKER ROCKE, F.C.A.

We have learned with regret of the death of Mr Walter Parker Rocke, F.C.A., at the age of 82 years.

Mr Rocke joined the staff of Price Waterhouse & Co in November 1897. He became a partner in 1922, on being admitted an Associate of the Institute, and was elected a Fellow of the Institute in 1927.

Mr Rocke retired in 1939 after forty-two years with the firm.

Chartered Accountant Succeeds to Scottish Chiefship

Captain Alexander Somerled Angus Bosville Macdonald of the Isles, M.C., B.A., A.C.A., has succeeded to the chiefship and baronetcy of Sleat, upon the recent death of his father, Sir Godfrey Middleton Bosville Macdonald of the Isles, BT., M.B.E. Captain Alexander Macdonald, who becomes the twenty-third Chief of Sleat, was born in November 1917 and served in the Second World War with the East Yorkshire Regiment. He was admitted an Associate of the Institute in 1947 and is a member of the firm of Price Waterhouse & Co.

Double Taxation Relief: France

The double taxation relief convention with France relating to taxes on income was ratified on July 30th, and has now been published as the Schedule to an Order in Council numbered S.I. 1951, No. 1388 (H.M.S.O. 6*d* net).

Income Tax: Double Taxation

Double taxation arrangements between the United Kingdom and Kenya, Tanganyika, Uganda and Zanzibar have been published as Schedules to draft Orders in Council. The arrangements require the approval of Parliament and the enactment of legislation in the territories concerned before they can come into force. They are identical in terms and follow the same general pattern as arrangements with other colonies.

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Stock Exchange Visitors

The experiment of opening the London Stock Exchange to the general public on Saturday mornings between 10 a.m. and 12 noon has been so successful (since it started in May last) that the Stock Exchange Council has decided to keep it going throughout August. At the end of the month, a further decision will be taken whether it should continue to be open for the remainder of the Festival.

Visitors to the 'House' have numbered several thousands already – a fact which surprised the members of the Council. Among them have been banking and accounting officials, students, school parties and many Festival visitors from London, the provinces and all parts of the world.

The Birmingham Chartered Accountant Students' Society

WEEK-END RESIDENTIAL COURSE

The pleasant surroundings of a large country house at Ashorne Hill, near Leamington Spa, in addition to an interesting programme, made the three-day residential course held last autumn a real success. So much so that the joint committee of the Birmingham and District Society of Chartered Accountants and the Birmingham Chartered Accountant Students' Society has arranged a similar course for Final and Intermediate students to take place again at Ashorne Hill during the week-end of October 12th to 15th. The lecturers this year will be: Messrs Harry Norris, A.C.A., F. Clive de Paula, T.D., A.C.A., A.C.W.A., W. H. A Sutton, B.A., N. S. Price, B.A., T. C. Thomas, M.A., LL.B., and D. E. Wilde, LL.B., C.A.I.B.

Although intended primarily for students sitting for the November 1951 and May 1952 examinations, the course is open to any student wishing to attend and applications for enrolment should be received by Mr E. Hemsoll, M.C., at the Chartered Accountants' Library, Eden Place Chambers, 71 Edmund Street, Birmingham, 3, not later than the end of August.

SATURDAY MORNING LECTURE SERIES

A course of lectures on Saturday mornings extending from September 22nd until May 17th of next year, has been arranged for articled clerks preparing for both the Final and Intermediate examinations, by the joint committee of the Senior and Students' Societies.

A newly articled clerk enrolling for these lectures pays an overall fee of £10 10s 0d which entitles him to attend all lectures until he has passed his Final examination. Applications for forms of enrolment should be made to the Clerk to the Committee at 71 Edmund Street, Birmingham.

Recent Publications

A DIGEST OF THE LAW OF AGENCY, by William Bowstead, Barrister-at-Law. Eleventh Edition by Peter Allsop, M.A., Barrister-at-Law, lxxxiv+351 pp. 10×6½. 50s net. Sweet & Maxwell Ltd, London.

TEACH YOURSELF MANAGEMENT, by M. Gilbert Frost, A.C.C.S., M.I.W.M., M.I.P.M., A.M.I.I.A., A.C.W.A. vii+197 pp. 7×4½. 6s net. The English Universities Press Ltd, London.

SPECIMEN ANSWERS TO THE QUESTIONS SET AT THE CHARTERED INTERMEDIATE EXAMINATION, May 1951, with COPIES OF THE QUESTIONS. 6s net. Study Services Ltd, London.

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF AUGUST 19th, 1876

Extract from 'Notes in Passing'

Touting

Last week, in commenting upon a letter which has recently appeared in a legal contemporary, we took occasion to remark on the unfairness of attacking a profession becauses of the malpractices of certain of its members. One of the legal journals is very fond of making spiteful allusions to what it terms 'touting accountants'; we, this week, give an instance of flagrant touting by a solicitor, not because we admire the example set us, but because we think the matter too serious to be passed over in silence. A solicitor in Middlesbrough, whose name and address we refrain from publishing, has recently issued a circular, the substance of which we print in another place. It is the most remarkable piece of professional chicanery we have met with for a long time past; and we are quite sure all respectable members of the legal profession will condemn and repudiate it and its perpetrator quite as sincerely as we should do were the transgressor an accountant. It will be observed that not only does the author of the circular puff himself on every available opportunity, but gives advice which looks very like an offer to aid debtors in defrauding their creditors.

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OFFICIAL NOTICES

Wales Gas Board

CHIEF ACCOUNTANT'S DEPARTMENT

TEMPORARY APPOINTMENT OF INCOME TAX ASSISTANT

Applications are invited from retired Inspectors of Taxes, or other persons who have had extensive experience of the preparation of income-tax computations, for a temporary post in the Chief Accountant's Department.

The person appointed will be required to prepare or examine outstanding tax computations for gas undertakings in Wales in respect of periods prior to nationalization for final agreement with H.M. Inspectors of Taxes, to calculate the aggregate amount of capital allowances carried forward at vesting date for the benefit of the Board, and to prepare the tax computations of the Board for periods subsequent to vesting date.

He may also be required to assist generally in the work of the department, including the preparation of information for the Board's rating advisers, but experience in valuation for rating is not essential.

Applications, furnishing personal details giving the names of two referees and stating the salary required, should reach the undersigned not later than August 31st, 1951.

C. B. MAWER,
Secretary.

1–2 Windsor Place,
Cardiff.

Crown Agents for the Colonies

ACCOUNTANT required by the Government of Kenya for the Accountant-General's Department on probation for admission to the permanent establishment. Salary, including allowances, according to age and experience, in the scale £635 a year rising to £1,354 a year. Outfit allowance £30. Free passages for the officer and wife and assistance towards the cost of children's passages. Liberal leave on full salary after a tour of 40 to 48 months. Local government pension rights can be preserved. Candidates must be members of one of the recognized bodies of professional accountants.

Apply at once by letter, stating age, full names in block letters, and full particulars of qualifications and experience, and mentioning this paper, to the Crown Agents for the Colonies, 4 Millbank, London, SW1, quoting M/28789/C on both letter and envelope. The Crown Agents cannot undertake to acknowledge all applications and will communicate only with applicants selected for further consideration.

The Milk Marketing Board have a few vacancies for qualified ACCOUNTANTS on their Travelling Audit Staff in various parts of England and Wales. The work is primarily of an investigational nature. Commencing salary dependent upon qualifications and experience, but would probably be between £500 and £600 per annum, with further increments in accordance with an agreed scale. Subsistence allowance is payable when the auditor is working away from home. Superannuation scheme after six months' service.

Applicants should state whether they wish to work from the address from which the application is made or if not, which part of the country they prefer.

Applications, giving full details of age, experience, present salary and whether the applicant holds a current driving licence should be addressed to the Chief Administrative Officer, Milk Marketing Board, Thames Ditton, Surrey.

THE CORPORATION OF CERTIFIED SECRETARIES. – Appointments Register for Secretarial and Administrative Staff. Employers requiring Secretaries, Office Managers and Assistants are invited to communicate with the Secretary, Secretaries' Hall, Fitzroy Square, London, W1. No fees charged.

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DEVELOPMENTS IN COST ACCOUNTING. 1st Edition (1947). INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES. **8/6** *net*, **8/11** *post free U.K.*

COMMERCIAL GOODWILL. 4th Edition (1948). P. D. LEAKE. **17/6** *net*, **18/4** *post free U.K.*

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The Accountant

ESTABLISHED 1874

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THE FINANCE ACT, 1951

IN our articles on the Finance Bill and the debates, we have referred to the object and effect of most of the new provisions and to the main arguments which were advanced from both sides of the House. Where points of principle were involved, we also dealt, though in less detail, with clauses and amendments which were proposed but which did not find their way to the Statute Book.

The purpose of this last short series of articles is to summarize the Act in its final form.

Income Tax Rates and Allowances

Sections 16 and 17 raise the standard rate of income-tax from 9*s* to 9*s* 6*d* in the £. A corresponding reduction is made in the highest rate of sur-tax so that the combined rates cannot exceed 19*s* 6*d* in the £; but this maximum operates at £15,000 instead of at £20,000 as formerly.

The reduced rate relief has been altered so that the first £50 is taxable at 3*s* in the £ instead of 2*s* 6*d*, and the next £200 at 5*s* 6*d* instead of 5*s* (Section 18 (1)). A consequential amendment has been made to Section 19 (2) of the Finance Act, 1935, and the amount of tax payable by persons with incomes between £135 and £160 is now limited to three-tenths of the excess over £135 instead of to one-quarter of such excess (Section 18 (5)). For P.A.Y.E. purposes the new rates came into effect as from May 25th, 1951 (Section 16 (3)).

The increased cost of living has been recognized by changes in some of the allowances. The married man's allowance has been raised from £180 to £190 and the child allowance from £60 to £70, with a corresponding increase of £10 in the maximum income permissible for the child (Section 18 (2) (3)).

The limits on the dependent relative allowance are similarly raised; the full deduction of £50 may be granted where the relative's income does not exceed £80 (instead of £70) and is reduced by £1 for each £1 of income in excess of £80 (Section 18 (4)).

The proviso to Section 27 (2) of the Finance Act, 1946, which prevented certain benefits payable under the National Insurance Act from being treated as earned income for the purposes of the additional personal allowance has been amended; it no longer applies to a pension payable to a wife by virtue of her own insurance (Section 19).

Initial Allowances

Section 20 provides for the temporary suspension of the initial allowances given by Parts I, II and III of the Income Tax Act,

1945. Subject to an exception recognizing the special position of shipping, initial allowances will not be given in respect of expenditure incurred on or after April 6th, 1952, and before a date to be determined by Parliament hereafter. The suspension does not, however, apply to expenditure on ships provided for the purposes of a trade which were actually under construction for persons carrying on or about to carry on that trade on April 10th, 1951, or where a contract for the construction of the ship or its engines had been entered into by such persons by that date. The proviso to subsection (2) ensures that the making of an election under Rule 11 of the Case I and II Rules does not prejudice this exception.

Cases III, IV and V

The case of *Goodlass, Wall and Lead Industries Ltd v. Atkinson* (29 A.T.C. 164) demonstrated that the provisions dealing with assessment under Cases III, IV and V of Schedule D were both obscure and, from the point of view of the Revenue, defective. The respondents had held shares in various foreign companies, and had received dividends thereon for several years prior to 1942–43. In the case of one company, however, the first dividend was received and was assessed in that year. The respondents contended that the phrase 'in any year of assessment' in proviso (ii) to Section 30 of the Finance Act, 1926, referred only to the year of assessment under consideration and that, as the shares had been purchased a number of years previously, no new source was acquired in 1942–43; a preceding year basis therefore applied and assessment in 1942–43 was not competent. The House of Lords, reversing the Court of Appeal, upheld their contention.

The practical effect of this decision was that in many cases a year's income might escape assessment altogether.

Section 21 deals with this by replacing proviso (ii) to Section 30 of the Finance Act, 1926, by a new subsection which bases the assessment on the time when income arises rather than on when the source was first acquired. The rules relating to additions to a source and additional sources are therefore now the same as those which apply to first assessments.

The section applies to assessments under Cases III, IV and V of Schedule D, including assessments on a remittance basis, but does not apply where the income or profits first arose before April 6th, 1951.

Miscellaneous Income Tax Provisions

Section 22 clarifies the operation and extent of Rule 7 (1) of the Miscellaneous Rules applicable to Schedule D which deals with the deduction of United Kingdom income-tax by paying agents. No point of principle is, however, involved. The rule now applies to interest etc. from *any* body of persons not resident in the United Kingdom, and subsection (2) declares that Rule 7 on the one hand and Rules 19 and 21 on the other are mutually exclusive.

The arrangements which have been entered into between the Commissioners of Inland Revenue and the vast majority of building societies are to be given statutory force as from 1952–53 by Section 23. The chief point of significance is that dividends and interest paid by the society in respect of shares, deposits or loans will be grossed up in the hands of the recipient for sur-tax purposes.

Section 24 exempts from tax sums paid to members of the Forces by way of *bounty*, either on their voluntarily undertaking to serve for a further period or under the Reserve and Auxiliary Forces (Training) Act, 1951. This exemption does not apply to the normal pay and allowances received by those on the 'Z' Reserve who are called up.

The Post Office Savings Bank, bankers, and any other person who in the normal course of his business pays or credits interest on deposits etc. without deduction of tax may be required by Inspectors of Taxes to submit a return of such interest for any year specified in the notice in Section 27. The section only applies to interest paid or credited after April 6th, 1950, and there is a three-year limit on the power to call for a return. The return must specify the names and addresses of persons entitled to the interest, but sums which do not exceed £15 may be omitted. Separate notices may be served on branches.

The section only applies to money received or retained in the United Kingdom, and, where the person entitled was not ordinarily resident here, any sums paid or credited to him may be omitted on request.

(*To be continued.*)

ACCOUNTING TERMS AND CONCEPTS

ALTHOUGH the function of measuring and assessing the results of human endeavour is common to the accountant and the economist, their reasons for doing so differ considerably. The accountant's loyalties lie with the companies and individuals who are his clients and his efforts are directed primarily to serving them. The economist, on the other hand, works in a more impersonal and comprehensive field and it is the aggregated results of a whole industry or an entire community with which he is usually concerned.

It was with a view to obtaining a closer understanding between accountants and economists of the principles applied in their respective spheres, that The Institute of Chartered Accountants in England and Wales and the National Institute of Economic and Social Research appointed in 1945 a joint exploratory committee consisting of three members from each body. Its first task was to define the more important terms commonly used by both accountants and economists and to examine the major accounting concepts, and its report thereon has just been published.[1]

The committee, first of all, accepted the 'elementary principles' that the double-entry technique and the adoption of a receivable-payable basis are essential in all good accounting, and that most of the accounting difficulties of both accountants and economists arise because, the process of production being continuous, the complete record of a cycle of operations cannot be contained in any one set of financial accounts covering the arbitrary period of a year. Thereafter, it attempted to formulate a 'basic accounting structure' for manufacturing and trading companies, consisting of a profit and loss account, divided into operating, non-operating and appropriation sections; a balance sheet; and a capital reconciliation statement showing the increases and/or decreases in the assets and liabilities and the equity during the period covered by the accounts. It also defined, at this stage, the terms used in ordinary accounting practice to ensure that the consideration of accounting concepts should not be clouded by logomachy.

[1] Some Accounting Terms and Concepts, Cambridge University Press. 3s.

As a result of this preliminary clarification, the committee was able, in the section on accounting concepts with which the report ends, to distinguish between the difficulties caused by the various shades of meaning attached to words by accountants and by economists, and those caused by differences in fundamental ideas. An example of the former is the use of the term 'capital', which in accounting practice denotes, primarily, the proprietors' share capital in the undertaking, whereas the economist uses the term to mean the store of the undertaking's physical assets, such as plant and stocks, which are capable of productive power, independent of any financial claims which may be associated with them.

Provided that the terminology of the one profession is understood by the other, these verbal difficulties may be overcome, but, language apart, the apparently irreconcilable cleavage of opinion between accountants and economists on certain fundamental accounting concepts, as the committee frankly admits, still remains. The chief of these, as is already well known, are the principles applied in company accounts to the valuations of fixed assets (and the provision for their replacement), and stocks. The economist regards profit as the gain arising on a sale after providing for the replacement of the goods sold; the principle being that goods consumed diminish wealth and that no gain can arise until this wealth is replaced. The replacement of stocks, therefore, is essential to the conservation of real capital. Similarly, provision for the replacement of fixed assets at current values is a condition precedent to making profit. The accountant's continued adherence to the doctrine of preparing accounts on an historical cost basis, and allocating a proportion of the resultant profits to reserve, to provide for the future monetary requirements of the business is wholly unacceptable to the economist.

The two sides of the joint exploratory committee have not found it possible to reach agreement – 'not because of any lack of desire on either side to accommodate the views of the other, but because of differences in the objectives of the two groups'. Nevertheless the report will remove many misunderstandings and is worthy of close study by all economists and accountants.

TAX TREATMENT OF RETIREMENT BENEFITS

IN February 1948, long before the second MILLARD TUCKER Committee was appointed, a report had already been submitted to the Board of Inland Revenue on the subject of the tax treatment of retirement benefits under employers' schemes. It was prepared by a joint committee which was appointed by the Federation of British Industries, the Association of British Chambers of Commerce, the Life Offices Association and the Association of Superannuation Funds, the appointment being the result of the anti-avoidance legislation contained in the Finance Act, 1947. All four bodies endorsed the main principles of the report, but the last two mentioned made reservations on matters of detail.

Following the invitation of the MILLARD TUCKER (No. 2) Committee to submit evidence, the Federation of British Industries formally filed the report with the committee, together with a supplementary memorandum which contains additional comments on employee schemes and makes suggestions as to schemes for the self-employed and for employees who are precluded from joining an employee scheme.

The report criticizes both the form and the content of the present law, stressing the need for consolidation and pointing out the anomalies of the present system, which is briefly summarized in an annexe to the report. It puts forward the broad principle that freedom from taxation should be given either to the contributions to a pension scheme, or to the benefits from it, and it inclines to the former alternative as being more fair. As a corollary, all benefits would be taxable when received, including lump sums and the capital element in annuities, at least above a certain minimum figure. Such a principle would ensure that a taxpayer neither paid twice nor escaped paying altogether. However, the report excludes lump sums paid under endowment policies, or on death or disability during service.

It is recognized that steeply progressive rates of tax complicate the taxing of lump sums, and suggestions are made for three classes of case. One-tenth of a lump sum paid at retiring age would be added to the then income to find the rate of tax at which it would be chargeable, and that rate would be applied to the whole lump sum. Of course, such treatment would penalize those who were enjoying a short-lived income at retiring age, while benefiting those who acquired additional income after retirement. Where a lump sum is paid on resignation or dismissal the recipient would be allowed to spread it over the following six years for tax purposes, and, similarly, where the sum is paid in commutation of pension rights, before the pension falls due. Finally, a lump sum paid in commutation of a pension already due would be taxed at the same rate as the pension itself – presumably on the assumption that the recipient's other income would continue unchanged. Lump sums applied in purchasing future benefits would be exempt. Lump sums paid in respect of past service should be allowed, but should be spread forward over a number of years. There would, of course, be limits on extravagant schemes, say, where the pension exceeded two-thirds of the salary (one-third for the widow).

The supplementary memorandum suggests that, in view of the fact that retirement often necessitates some capital outlay, sums received in commutation of pension rights should be exempt up to one-quarter of the total value of the rights. Voluntary payments by a company in liquidation should be deductible in arriving at its own tax liability. Moreover, an employee changing his employment should be safeguarded against loss of accrued pension rights.

Dealing with self-employed persons, the memorandum recommends the application of the broad principle that income applied in securing retirement benefits should be exempt, the resulting benefits being taxed. It proposes somewhat complicated provisions as to the upper limit on allowable contributions; 12½ per cent of earned income (broadly defined) with an increase to 20 per cent where this will not increase the average to more than 12½ per cent, and other increases in special cases. The benefit would consist of an annuity to the taxpayer and his dependants, non-assignable, and commutable only to the extent of 25 per cent. The annuity would rank for earned income relief, while the relevant annuity fund would be exempt from tax.

GOODWILL - II

by ANGUS MACBEATH, C.A., A.C.W.A.

In this article are examined some of the important matters which arise in considering the value of goodwill and the effect which modern legislation and conditions may have upon it. The first part of the article dealt with general factors which arise, including market conditions and the importance of man-power. This second part proceeds to the examination of the effects which government policy and legislation may have and of the basis on which the value of goodwill may be calculated.

GOVERNMENT POLICY

Fiscal Policy in relation to Customs and Excise Duties

HERE we consider the artificial positions which are created by government interference in the conditions of trade.

A business may earn a constant high level of profits whose whole foundation rests upon the continuation of a protective tariff which enables it to maintain its price level in the home market in the face of all foreign competition. Here a change in fiscal policy may eliminate all profits overnight.

Profits may be increased or decreased by variations in the rates of excise duties. The consumption of beer will possibly rise and fall with increases and decreases in the rates of the excise duties and this contingency must be considered in assessing the value of the goodwill not only of a manufacturer of beer, but of bottle manufacture and of licensed premises also.

Even in those instances where the excise duties have remained constant for some years, the contingency of possible alteration should not be overlooked and the trend of current Government expenditure and taxation policy will be a guide in this matter.

Fiscal Policy on Currency Valuation

The policy of government in relation to the valuation of currency is of importance. The devaluation of the pound sterling immediately places an increased burden of cost on importers of goods, which increase they may not be able completely to pass on to consumers. On the other hand an immediate fillip to the trade of exporters should normally arise as their products become more attractively priced in export markets.

Unusual variations in the profits of a concern must therefore be looked at so that if they are due to changes in currency valuation, adjustment may be made in calculating the goodwill value.

Government Restraint of Trade: Trading or Profits

The government may again affect goodwill values by restraint of trade. Where all purchasing is carried through by a government-sponsored board – we have examples in cotton, in bulk purchase of various commodities, and in egg marketing – then the tradesman dependent upon a board is really at their mercy as regards supplies, and a proprietor of a thriving business could be beggared by circumstances which he could himself control were he allowed to do so.

Similarly a business will be affected by controlled margins of profit: changes in margins may have serious effect upon the profitability of a business and the business itself be unable to do anything about it.

Factory Plans

A factory in a depressed area may have a full labour force of satisfactory skill which may be lost by the attractions of new factories built under a government scheme for the area.

Factory plans by other concerns may also affect a business, because new factories in an area may force up wage rates for the available labour force and attract away skilled work-people, with a consequent fall in quality of product and thus possibly in turnover.

The potentialities for development in the area occupied by a business must therefore be given consideration.

Town and Country Planning

A new consideration in the life of the community has been brought in by the Town and Country Planning Act, and the need to pay development charges before any new project can be proceeded with becomes important. There is also the consideration that new projects may be refused permission to proceed and this would reduce any goodwill which was inherent in the potentialities for expansion in an existing business.

Rationing and Stockpiling

Shortages must always have an effect upon profits. The business which has its turnover cut by a period of rationing due to shortages of raw materials, usually during or following a war, has the right to ask for normal years to be considered

in addition to, or in preference to, those affected by such restrictions. Similarly, when prices rise against a business, due to stockpiling activities, the trading account will show a position which is by no means one which could be regarded as normal and, therefore, a claim may be made to have normal years considered.

The possible future effects on the profits of a business must be taken into account by a prospective buyer during a period of rationing or stockpiling where a goodwill value figure has been calculated upon the basis of normal trading years.

Taxation Policy

The policy of the Government in connexion with current taxation in the form of income-tax, profits tax, and excess profits tax, is important.

Under normal conditions income-taxes should not be considered in relation to goodwill. It is advisable to consider profits and rates of interest as gross amounts before slicing off the portion demanded by the State.

The methods of application of taxation today, however, may have a retrospective effect which will affect the value of goodwill, because future net profits may be reduced to an excessive extent due to additional taxation arising from curtailment of allowances or other causes.

In income-tax, the assessment is based upon the profits of the previous year, so that if the profits of the year preceding the purchase of a business have been above average, the buyer may reasonably expect to have the goodwill value reduced by the excess of the tax payable on the profits over tax calculated on the average profits of the period on which the goodwill value has been calculated.

Retrospective Adjustment

Capital allowances give rise to a further possible retrospective adjustment because if assets are sold at prices in excess of written-down values, tax must be paid on so much of the allowances previously granted as are recovered in the sale price.

As an asset valuation will probably be made at the time the value of goodwill is considered, it seems reasonable to apply the valuation for the assets included in the wear and tear computation to their value in that computation, and to reduce the goodwill value by tax at the current standard rate on any resulting balancing charges (after deducting any balancing allowances).

The retrospective complication with profits tax arises on the differential rates of tax. When profits are distributed they attract the distribution rate of tax. In calculating the value of the goodwill of a business this continuing liability must be kept in view. The maximum liability can be calculated at the dateof the valuation of the business, and the treatment of this liability would then require to be settled between buyer and seller on a compromise basis because a change in taxation policy in the future could eliminate the liability partially or completely.

Many excess profits tax cases have not yet been settled. The tax ceased on December 31st, 1946, therefore the seller of a business would probably require to indemnify the buyer against any future adjustment of the liability and vice versa. This point, however, arises rather in considering the liabilities than in considering the value of goodwill.

Goodwill out of Losses

A further result of the taxation procedure of the present day is the creation of a goodwill value where goodwill in the business sense does not exist. This position is caused by the arrangement that losses which have been agreed for tax purposes may be carried forward and set off against future profits, thus reducing the liability to taxation on those future profits.

The absurd situation thus arises that a business which has been able to earn a small profit may have a lower realizable value than a business which has incurred substantial losses!

The payment for the right to the tax advantage arising from the losses does not acquire a tangible asset and must therefore be classified as a special type of goodwill payment. Whereas normal goodwill will be of value to *any* purchaser, losses carried forward for taxation purposes have a saleable value only where the purchaser is satisfied of his ability to introduce sufficient profits in the future to absorb the losses.

This will frequently mean that the purchase will be made by the holding company of a group: for example, where a group consists of companies in a horizontal combination they may be able, by their combined purchases, to assure a continuous high level of profits to a company engaged in an earlier stage of manufacture.

An illustration of the position is the purchase by a group of motor-car manufacturing companies of a company which manufactures one of the bought-out component parts used by the group.

There is, however, a risk attached to the purchase of the tax losses which is not a commercial risk. This risk is that the rate of tax may fluctuate before the losses have been absorbed: if the tax decreases the payment for the losses may have been too great; if the tax increases a further gain from the purchase will arise.

Calculation of Value

Having considered these various points so far as they affect the business under examination, the next point which arises is to fix the method by which the value of the goodwill should be ascertained.

The usual basis suggested is by calculation based upon the profits shown by audited accounts. Few, if any, accountants however, would be prepared to advise clients to purchase a business, or to agree settlement of estate duty values, by calculating the value of goodwill from the profits shown by the audited accounts without making some adjustments to those profit figures.

We have considered some factors which would be taken into account in regard to the trading profits. Adjustments are also necessary after the trading profits have been agreed. Many of these adjustments are obvious and speak for themselves; for example, special payments which will not be repeated and may therefore be added to the profits shown by the accounts; adjustment of the remuneration of the proprietors to a figure considered reasonable.

How are we to deal with taxation? Present taxation other than income-tax and profits tax will be charged before arriving at the net profit for goodwill purposes. Income-tax and profits tax, however, and notwithstanding the wording of Section 12 (1) (*c*) of the Eighth Schedule of the Companies Act, 1948, are still regarded as appropriations of profits – the share extracted by the State. As stated under 'Taxation Policy' above, these taxes should not be taken into account when calculating the value of goodwill.

The calculation of the goodwill value will proceed once the net profits have been established. The net profits, where a business is being purchased, will be the profits after adjusting for charges or income which will not be repeated, and where a value is being calculated for estate duty purposes, will be the profits after adjusting into the expected position in the future.

Method of Calculation

An example of a simple and straightforward method of calculating the goodwill value is:

Average net profit for ten years ..	£100,000
Deduct reasonable commercial return on risk capital involved – 10 per cent on £750,000	75,000
Super-profit	£25,000
Goodwill at five years purchase of super-profit	£125,000

The two matters which will be the subject of further argument here, are the commercial rate of return to be allowed and the number of years of purchase to be applied to the super-profits. These matters must depend upon the market conditions at the date of the calculation.

There are various other methods of calculating the goodwill value from the super-profits figures. These methods are well known and are not therefore reproduced.

The methods of calculation of goodwill based upon the super-profits may not always be entirely suitable in practice because, for example, a buyer may be attracted by a business and be willing to pay more for it than the business is worth from an accounting point of view, while a seller may be anxious to sell his business and be willing to accept a price below that brought out by the asset and profit value.

The accountant, however, is obliged to work in figures and, having worked out the current value of the goodwill based upon the super-profits and advised his client, mentioning at the same time the particular extraneous factors which may affect the value of the goodwill for the business, he appears to have discharged his duty to the client.

PROFESSIONAL PRACTICES

The circumstances of professional practices are entirely different from those of a commercial venture. In the commercial venture the continuity of the business may be anticipated notwithstanding changes in the management: the professional practice, on the other hand, is usually built round individuals, and the fewer the individuals the more likely is a change to affect the value of the goodwill. The large practice with numerous partners will achieve a degree of continuity which it is impossible to hope for in the smaller practice of, say, two or three partners, where individuality predominates and clients are likely to leave for other practices when the partner with whom they were accustomed to deal retires from the practice.

When calculating the value of the goodwill of a professional practice therefore, the assessment of the degree of continuity which may be expected assumes important proportions and some safeguard in the agreement of sale may be desirable, perhaps even providing for postponement of the payment of part of the agreed value of goodwill based upon past income until the continuing income in the new venture has been ascertained, and the value of the goodwill then reconsidered.

(*Concluded.*)

MONTHLY REPORTS ON NET MARGIN

Advantages in Speed and Ease of Production

by IAN LIDDINGTON, M.C., A.C.A.

Introductory

ATTENTION has been directed, by recent letters to the Editor of *The Accountant*, to the time required for the preparation of monthly accounts.

It is probably true to say that the greater the accuracy required in the figures, the greater the delay in their production. It is probably also true to say that provided that extreme accuracy is not required, the unorthodox approach to this problem may give the most useful results.

The system here described has been applied with success to a medium-sized industrial company engaged in process work: the system is designed to provide information as to the monthly trading results both quickly and easily.

Outline of the System

The modern practice of preparing a trading budget for the forthcoming year is followed. The figures for the year are then broken down into months and these form the starting point for the monthly reports on net margin.

The cost and financial accounts are integrated, e.g. all production items purchased and the cost of labour applied on production are charged to the cost department, which is responsible for the materials analyses required for the half-yearly financial accounts and for the stock control accounts.

Weekly cost reports are prepared, showing only the difference between the actual and standard cost of production for the week by causes.

Monthly reports on net margin set out the budgeted and the actual net margin for the month. The difference is accounted for (in a manner described more fully later) under the following main heads:

(1) Differences between actual and budgeted (not the standard) cost of output.
(2) Differences due to variation from budget in the volume of sales.
(3) Differences due to variations in the 'mix' (or 'assortment') and profitability of sales.

Every third monthly report also brings into account differences between the actual and budgeted cost of administrative overhead for the preceding quarter.

The Budget

Work on the preparation of the budget is started several months before the beginning of the financial year to which it refers. Modifications are made from time to time as circumstances change and the budget finally crystallizes just before the beginning of the new financial year. The budget is based on the expected volume and value of sales, and the expected cost. Works cost is based on standards already set up unless modified for any change in production method: different standards may be set for varying levels of production. In this case, 'standard' is based on the results considered to be attainable under reasonably favourable conditions. The standard cost arrived at in this way is increased by the amount by which the expected (subsequently referred to as the 'budgeted') cost is calculated to exceed the standard. A budget for administrative overhead is prepared and the charge for the year is allocated to departments. These allocations once made are regarded as fixed and may not under any circumstances be altered.

The budget figures are used to calculate product costs. These are used (*a*) for arriving at the budgeted cost of sales and (*b*) for calculating the budgeted cost of output.

Integration of the Cost and Financial Accounts

It has already been mentioned that the cost department is charged with all expenditure connected with production. Credits are passed for materials and labour expended for non-production purposes, e.g. plant erection. In addition, credits are passed to the cost department for the budgeted cost of all sales. The balance has to be accounted for either in the weekly cost reports (differences between the standard and actual cost of production) or by an increase or decrease in the value of stocks and work in progress, or in the adjustment between standard and budgeted cost to which reference is made later.

It will be seen that the differences in stock or work-in-progress control accounts must be accounted for: in practice these are written off, after due enquiry, every three months.

The financial books cover all accounts and transactions not carried by the cost department:

the two sets of books are linked by means of a control account.

Cost Accounts

Reference has previously been made to weekly cost reports showing the difference between the actual and the standard cost of the week's output. The difference is analysed by causes showing, for instance, separate figures for variances arising from: (1) changes in production method or specification; (2) labour productivity; (3) material usage; (4) changes in the price of raw materials and rates of pay etc.

Two problems present themselves in using weekly cost reports as a basis in preparing monthly reports on net margin. In the first place, weekly cost reports show the differences between the actual cost of production and the *standard* cost. In referring earlier to the budget it was stated that the standard cost was increased by the amount by which the budgeted cost had been calculated to exceed the standard cost. The totals in the weekly cost reports must be converted in the same way to arrive at the difference between the actual and the budgeted cost of production (cost of production variance).

In the second place, it is necessary to calculate a cost of production variance for the month based on the available weekly figures. There is usually a broken week at the beginning and end of the month and it is necessary to split the figures for these two weeks in proportion to the number of working days.

If the final week's figures are not available in time, an estimate may be made on the basis of available information, provided that the cost of production variance keeps reasonably stable.

Example

The following example shows, in outline, the principles involved and methods adopted in preparing monthly reports on net margin under the system here described:

I. Basic figures:

	Budget £	%	*Actual* £		*Expected (Expected figures based on actual turnover)* £	%
Sales	10,000	100	13,200	(*b*)	12,500	100
Factory cost	8,000	80	9,000	(*a*)	10,000	80
Gross margin	2,000	20	4,200		2,500	20
Administrative overhead	1,500		1,600		1,500	
Net margin	£500		£2,600		£1,000	

II. Report on net margin earned:

	£
Budgeted net margin	500
Actual net margin	2,600
Excess of actual over budgeted net margin	£2,100

Due to:		*Gain* £	*Loss* £
(1) Volume of sales exceeding budget	(*c*)	500	
(2) Increase in net margin due to increase in profitability of sales or more favourable 'mix'	(*d*)	700	
(3) Cost of production being less than budget	(*e*)	1,000	
(4) Administrative overhead being greater than budget			(*f*) 100
		2,200	
		100	
Excess of actual over budgeted net margin		£2,100	

III. Explanation of figures:

(*a*) Budgeted cost of actual sales.

(*b*) $\frac{100}{80} \times £10,000 = £12,500$.

(*c*) Expected gross margin less budgeted gross margin £2,500 − £2,000 = £500.

(*d*) Actual sales less expected sales: £13,200 − £12,500 = £700.

(*e*) Expected works cost less actual works cost: £10,000 − £9,000 = £1,000.

(*f*) Expected cost of administrative overhead less actual cost of administrative overhead: £1,500 − £1,600 = − £100.

The Time Factor

It has been stated that the cost of production element in monthly reports on net margin is derived from weekly cost reports. Late arrival of suppliers' invoices for materials does not hold up preparation of the weekly cost reports, since materials used invariably derive from earlier deliveries of known price.

Another factor making for speed is that monthly reports on net margin may be prepared before the values of creditors, stocks or work in progress are known. Thus time is available for considering the trading results and for inquiring into the causes of any unfavourable production costs or trading trends.

Conclusion

It is not claimed that the system outlined above is either perfect or capable of universal application. It is however a system which, allowing for some temporary and controlled sacrifice of accuracy, provides a simple method of giving management important information quickly.

WEEKLY NOTES

Cost Accountants' Examinations

In the June 1951 examinations of the Institute of Cost and Works Accountants, held in 18 home and 46 overseas centres, the results of which have just been announced, there were 1,323 candidates for the Final, of whom 329 or 25 per cent were successful. The First Place, which carries with it the 'S. Laurence Gill' prize, was won by Mr Kenneth Roy Maitland of Salford. In addition, Mr Maitland was bracketed with Mr Leonard James Rawle, of Tiverton, Devon, for the 'Leverhulme' prize in Costing. The 'Donald L. Moran' prize for Factory Organization was awarded to Mr Barrington Alan Palmer, of Nottingham.

For the Intermediate examinations there was a total of 2,346 candidates of whom 422 or 38 per cent, of those taking Part I passed; 504 (56 per cent) of the entrants for Part II passed; and 141 (40 per cent) of those taking Parts I and II together were successful. The First Place was awarded to Mr John Burrell Charnock, of Liverpool. Only six of the 28 candidates for the Preliminary were successful.

Lists of the successful home and overseas candidates in the Final, together with a complete summary of the results of the examinations appear on another page.

Free-of-tax Preference Dividends

The House of Lords has confirmed the decision of the Court of Appeal in *Godfrey Phillips Ltd v. Investment Trust Corporation Ltd*, as to the way in which dividends on the former company's 'B Preference' shares are to be calculated. The dividend is expressed to be six per cent free of tax up to six shillings in the £, and it is now established that, with a standard rate of nine shillings in the £, the necessary calculation is as follows, (assuming a holding of 100 shares):

	£	s	d
Agreed dividend	6	0	0
Deduct tax at 3*s* (i.e. 9*s* minus 6*s*)		18	0
Net dividend payable	£5	2	0
Gross amount for tax purposes (£5:2 $=\frac{20}{11}$)	£9	5	5

The method formally adopted, which gave rise to this protracted litigation, was as follows:

	£	s	d
Agreed dividend	6	0	0
Grossed up at agreed rate (£6 $\times \frac{20}{14}$) ..	8	11	5
Less tax at standard rate (9*s*)	3	17	1
Net dividend payable	£4	14	4

Thus the shareholder will be 7*s* 8*d* better off for every 100 shares when the standard rate is 9*s*. With a 9*s* 6*d* rate the net dividend is £6 less tax thereon at 3*s* 6*d*, or £4 19*s* 0*d*; under the old method it would be only £4 10*s* 0*d*.

The Company has announced that counsel have advised that there must now be an adjustment in favour of 'B Preference' shareholders and that in their view such adjustment should take effect from the half-yearly dividend date following the date upon which a 'B Preference' shareholder first questioned the old method (November 1st, 1948). However, although counsel consider that earlier underpayments must be regarded as waived, they have advised a further application to the Court to decide this point finally.

Capital Issues Committee and Hire Purchase Capital

Considerable attention has been attracted to the speech by Mr Gibson Jarvie to the stockholders of the United Dominions Trust about their company's application to the Treasury for a new issue of capital. After making what amounted to two applications for permission and one protest, the Trust was informed that no permission would be granted and that no reason would be given for the decision.

So far as commerce and industry in general is concerned, it is the second point which will meet with the greatest objection. Given the existence of the Capital Issues Committee and its general directive to apply some sort of control over the investment of new money capital, it is clear that an obvious place to apply the control is on hire-purchase. This at least keeps policy in some sort of line with the directive to the banks to limit their advances. Such a decision in no way reflects on hire-purchase finance in general or upon the United Dominions Trust in particular.

Mr Jarvie's criticism about refusal to give reasons why permission is withheld will receive wide approval. Decisions handed down without given reason must, at best, give the impression that the Committee find it exceedingly difficult to adhere to any line of principle in examining cases. At worst, the uninformed prejudices of the public are correct and the Committee being under no obligation to give reasons, must be actually pursuing a line of opportunism.

The line of principle on much that has been done of late under the name of control of money capital has been exceedingly difficult to follow. The Capital Issues Committee would do itself and the financial world a service if the veil of silence in these matters were lifted and the reasons for decisions expounded.

Smaller Trade Gap

According to the provisional figures for July, this country's external trade position took a slight turn for the better last month. The visible adverse balance was reduced over the month from £148·9 million to £127·1 million. The improvement was due entirely

to better exports. This would be expected to a slight extent since July had an extra working day compared with June – the rest of the increase was no doubt due to higher prices being received from abroad for British goods. Imports remained almost unchanged on the month. In other words, they continue to run at a record level. This alone is some measure of the task facing British exports if they are to make a major contribution towards closing the trade gap in the second half of the year. At the moment, their performance is rather too erratic to hold out any firm prospect that they will be particularly resilient for the rest of this year. A great deal depends on whether lower world prices, assuming they stay that way, can make a large impression on the huge import bill that is at present being incurred to support record exports, record production and a comparatively unimpaired standard of living.

Steel Controlled Again

Full control of steel supplies is to be assumed again after December 1st. The Minister of Supply announced at the end of last week that an allocation scheme similar to the one in operation during the war will be reintroduced. So far only an outline arrangement has been published but even at that it is clear that a marginal shortage of steel caused by defence requirements has necessitated a return to the control scheme which was finally and belatedly abandoned last year.

From the scheduled date, no firm may acquire carbon steel (which covers 95 per cent of steel used) without an 'I.S. Authorization'. These will be issued to enable companies to acquire specific quantities of steel for specific purposes. Firms which formerly received I.S. authorizations will be asked by the appropriate department to send in applications for carbon steel. Ministry of Supply regional controllers will ask those who originally applied to them to do so again. Special arrangements through the Ministry of Works will be made for the building and construction industries.

Much depends on the order of priorities and the amount of flexibility in carrying out the scheme as to how soon it can be operated without causing harmful restriction and delays for industry. It is quite clear that defence, coal mining, transport and certain other industries have top or very high priority. But there will be a host of marginal cases to decide, especially when it comes to assessing priorities for export goods with a steel content, which will defy easy solution.

Finance for Sulphuric Acid Plant

Some information about the production targets planned for the proposed new sulphuric acid plant which is to make acid from anhydrite were announced some weeks ago. This week there has been an announcement about the financing of the project. Those companies which are taking acid from the plant are subscribing £1,200,000 in proportion to their offtake of chemical. They will also guarantee the interest on a £3 million debenture loan which has been placed with institutional investors.

The participating companies agree to buy acid, at least until 1970, at a price which will cover all production costs including payment of interest and repayment of the debenture. The subcribers to the ordinary capital agree to subscribe a further amount of £1,200,000 to meet increased capital costs if necessary.

Of the total £4,200,000 it is estimated that £3,200,000 will be required for constructing the plant leaving £1 million as working capital and to provide a fee to Imperial Chemical Industries for supervising the erection of the plant.

Higher Shipping Freights

According to the Chamber of Shipping index of freight rates a halt was called over June to the sudden drop in freight rates which was recorded in May. With 1948 as 100, the index was 179·0 in May and 179·6 in June. In addition, time charter rates which are not recorded in the published index have recently been very firm.

During June, business in the coal and grain trades was slack and the absence of inquiries from these sources, which are important constituents of the freight market, may have meant that the index was less comprehensive than usual. Since June, however, there has been renewed activity in grain and coal which suggests that the recent firmer trend in freights will continue for some time.

Higher Retail Sales

There has been a good deal of discussion over the last few weeks about the consumer resistance to high prices in the shops since early this year. Isolated evidence has been produced to show that stocks are accumulating on shop shelves and from this it has been deduced that lower prices are likely to result.

This may well be true but the evidence is far from conclusive. The official statistics of retail trade, for instance, show an upward tendency for the first half of the year compared with the same period in 1950. This increase has not been uninterrupted (it faltered noticeably in May) but there was a correspondingly marked improvement in June.

Not until the results are available for the autumn buying season will it be possible to see if the temporary lull in the spring has had any longer-term significance. Those who hope to see a lapse in retail buying, which will be passed on down the cost structure of trade and industry, are really pitting the recent fall in international prices of such commodities as wool and cotton against the powerful upward pressure of inflation from wages and salaries on what may be a dwindling supply of goods for the home civilian market.

REVIEWS

Integrated Cost and Financial Accounts by G. B. Souster, A.C.W.A.

(Sir Isaac Pitman & Sons Ltd, London. 10*s* 6*d* net)

It is a vital necessity that cost and financial accounts should be completely integrated and this book deals with the methods whereby this may be ensured. The cause espoused in this book, therefore, is a worthy one, although it greatly overestimates the extent to which many concerns have in fact integrated their cost and financial records. Moreover, the book rather gives the impression that integration is fairly simple, if only the records are maintained in the correct form.

The proposals put forward are by no means new, but the examples worked out form helpful illustrations for the student.

Income Tax in Southern Rhodesia by H. Block, B.Com., and R. L. Rosenbaum, Chartered Accountants (S.R.) (S.A.)

(Rhodesian Management and Trust Co Ltd, Bulawayo and Salisbury, S.R.)

Here we have in thirty-one pages a clear and readable outline of the taxation of income in Southern Rhodesia, an outline packed with practical examples. Even a cursory glance would show how much the system owes to United Kingdom tax law and this fact enables anyone versed in that law to master the salient features of Southern Rhodesian law in a very short space of time.

Palmer's Company Precedents (Sixteenth Edition) (Part I - General Forms) by A. F. Topham, K.C.

(Stevens & Sons Ltd, London. £5 10*s* net)

This is the unchallenged standard work on the many forms which have to be drafted in connexion with companies, and the last edition, although published twenty years ago, is still in constant use. The publication of a new edition was made imperative by the Companies Act, 1948, but those responsible for it were well advised not to hurry the work. Although it is of course a lawyer's book, it will be extremely useful to accountants and indeed to all who are concerned with companies. Upwards of seven hundred different forms are given and are accompanied by copious notes based on the practical experience, not only of the present editor, but also of many solicitors and of several officials of the Board of Trade, who have given him assistance. A minor criticism is that the specimen notices of general meeting should contain the statutory reminder as to proxies. The book makes a handsome addition to any library and we look forward to the second and third volumes which will deal with debentures and winding-up.

The Role of Measurement in Economics by Richard Stone

(Cambridge University Press, London. 12*s* 6*d* net)

This book contains the Newmarch lectures for 1948–49 on the subject of the extent to which economic principles are susceptible of expression in mathematical terms. Following on Newmarch who founded the science of 'econometrics', as it is called and, later, Edgeworth, this approach to economics in recent years has been considerably developed. Whereas a principle may usefully be crystallized in mathematical terms, its expression in this way must always be understood in the light of its own limitations, i.e. it always represents an extreme abstraction. In practical life the factors at work are far from pure, but with the limitations clearly understood, the mathematical method can be extremely useful and much of this book deals with its application to various forms of economic activity. This requires a high degree of mathematical knowledge, but there are various chapters on social accounting of more general interest, and one on 'Systems of Transactions from the Viewpoint of Accountants' deals with the theory of accounts.

Income Tax Treaties by Albert A. Ehrenzweig, Professor of Law at the University of California, Member of the New York Bar, and F. E. Koch, Dr. Jur., A.C.W.A., A.A.C.C.A.

(Commerce Clearing House, Inc., New York. $15)

Although this scholarly book roams over a number of double taxation treaties entered into by the United States, it is devoted chiefly to a close examination of the treaty between that country and the United Kingdom, and for that reason will be of considerable use to British tax practitioners dealing with this difficult branch of the law. No other book we know of has examined this particular convention so extensively. The treatment is however entirely verbal; there are no arithmetical examples.

The Nationalized Industries by D. N. Chester, C.B.E.

(George Allen & Unwin Ltd, London. 7*s* 6*d* net)

This is the second edition of a book which provides a short but very useful comparison of the nationalized industries, particularly as regards such matters as their organization, constitution, legal powers, labour relations and reports and accounts. The review excludes non-industrial undertakings such as the Central Land and National Assistance Boards and also the Post Office which operates as a definite government department.

An analysis of the statutory provisions regulating each of the industries in fact taken over, reveals

certain distinct trends. Obviously, although the public corporations are likely to remain a permanent feature of the national life, they should not be regarded as static in form or organization. The trends revealed include the increased tendency for the appropriate Minister to issue directives and to appoint the members of the various boards, which generally are becoming financially more dependent. There is, however, apparently an increased awareness of the need for decentralization.

Although not intended to be a comprehensive study, those interested in public affairs will find the analysis extremely helpful. A good bibliography is also included in the book.

The Accounting Mission
by F. Sewell Bray, F.C.A., F.S.A.A.

(Cambridge University Press, London. 15*s* net)

In 1949, Mr F. Sewell Bray, F.C.A., F.S.A.A., a Senior Nuffield Research Fellow in the Department of Applied Economics of the University of Cambridge and senior partner of a London firm of chartered accountants, was invited to lecture at the seven universities of Australia and also to give a paper at the Australian Congress on Accounting. This book contains the substance of these addresses. The general theme is the relationship between accounting and economics, with particular reference to the application of accounting techniques to the measurement of national income in a world of constantly changing price levels. It is evident from the scope of his survey and the apt quotations which he has selected from a wide range of writers, that Mr Bray has devoted much time and thought to this difficult and delicate subject and his views will undoubtedly command respect and attention.

Agricultural Death Duties
by W. Walker Watson

(The Country Gentlemen's Association Ltd, London. 10*s* 6*d* net)

This book repeats the criticisms contained in the Gowers Report of the present effects of estate duty on country estates but states the case for estates and mansions which cannot be said to be of historic importance. Noting that the Government has rejected the main proposals of the Gowers Committee, the book makes its own proposals for estate duty reform in favour of agricultural estates. It suggests that a landed estate should not be aggregated with the owner's other estate, that policy moneys on insurances to provide estate duty should be exempt, that a settled estate passing to a life tenant should bear tax only on its actuarial value to him, that the 45 per cent abatement in favour of agricultural land should apply to shares in companies owning such land and that trustees should be freed of contingent liability to duty when a settlement is broken. Pending the attainment of this Utopia the book gives some shrewd advice on how to temper the present icy wind.

Investment Arithmetic
by M. S. Rix

(Sir Isaac Pitman & Sons Ltd, London. 15*s* net)

The aim of this book, as the introduction points out, is to define the technical characteristics of different types of securities, to explain the data required to make calculations and to set out the arithmetical processes used in practical investment. The first three chapters define and classify the various kinds of securities. Then follow six chapters on the handling of information on interest, dividends and prices and on the complicated question of yields. The calculations resulting from, or essential to, the proper consideration of company accounts are next discussed in detail and the final chapter is devoted to the terms and methods in use when dealing with new issues.

This lucid and straightforward thesis should be of considerable value to investors and their advisors, especially on occasions when, as recently, the appearance and contents of one small White Paper may necessitate the price of every equity being rapidly recalculated overnight.

The Leeds Chambers of Commerce
by M. W. Beresford, Lecturer in Economic History in The University of Leeds

(Leeds Incorporated Chamber of Commerce, Leeds. 10*s* 6*d* net)

The Leeds Chamber of Commerce celebrates its centenary this year but it possesses records of earlier Chambers beginning in 1785. From these records the author has compiled a book which will be of great interest to students of economic history. It is handsomely bound, profusely illustrated, and contains reproductions of two plans of Leeds, dated 1772 and 1821. One has only to compare these two maps to realize the extraordinary upheaval that was wrought by the industrial revolution. Not all is progress, however, for we read that in 1851 letters posted in London were being delivered in Leeds on the same day!

Building Societies Year Book, 1951
Official Handbook of The Building Societies Association

(Franey & Co Ltd, London. 18*s* net)

As usual, the bulk of the handbook is devoted to an alphabetical list of building societies in Great Britain, with details of their most recent balance sheets. Although the total assets of building societies continue to rise, this year for the first time since the early part of the war, the amount advanced on mortgage in the year has fallen. The foreword contains such headings as 'the need for liquidity' and 'prudent lending', and it is clear that this fall proceeds not from any slackening in the demand for houses but from a more cautious policy adopted by the societies. In spite of the continued rise in building costs, the prices asked for many houses are still a little unreal.

FINANCE AND COMMERCE

No factor, whether political or economic, appears strong enough to shake stock markets out of their present state of apathy. Business is extremely small, even when full allowance is made for seasonal conditions. The uncertainty inherent in the dividend limitation position is the main cause for anxiety. In the absence of any selling pressure equity values have recovered but it cannot be said that the market is anywhere near confident.

Edgar Allen

We reprint this week the accounts, as at March 31st, 1951, of Edgar Allen & Co Ltd, the Sheffield steel-makers and engineers, whose chairman is Mr W. H. Higginbotham, F.S.A.A., F.S.S. In these accounts, the directors after further review of all the relevant circumstances, have decided to give effect to a revaluation of fixed assets made by Messrs Wheatley, Kirk, Price & Co in January 1948. The result is 'to show more accurately the current value of the company's business as a going concern'.

The change-over to the new basis is very neatly and informatively set out in statement (1), the summary of fixed assets, and statement (2), the surplus on revaluation of fixed assets.

Mr Higginbotham emphasizes in his report that the balance sheet now shows the values of fixed and current assets in terms not only comparable with each other but also with those of current liabilities. In consequence, he says, the great disparity between the amount of capital actually employed, including capital surpluses and revenue reserves, and the authorized and issued share capital is clearly indicated.

The directors are now considering the advisability of reorganizing the capital structure in order to reduce this disparity, and make the share capital more representative of the value of the members' interest in the business and the capital employed, but of course, they will require Treasury consent.

Up and Up

'I am further to acquaint you that from the amazing advance on the price of every ingredient, the next goods you receive will be advanced in proportion.'

EDGAR ALLEN & COMPANY LIMITED

Profit and Loss Account for the period from April 2nd, 1950, to March 31st, 1951, inclusive

April 1st, 1950 £	£	£		£	£	£
44,943			Depreciation on Land and Buildings, Fixed Plant and Machinery, Loose Tools, Office Furniture and Fixtures and Motor Cars			96,954
8,999			Contributions to Staff Pension Scheme			10,183
			Directors' Remuneration:			
	300		Fees		75	
	14,950		Management Services		14,800	
	172		Contribution to Staff Pension Scheme		180	
15,422						15,055
			Note. – Fees amounting to £25 were received during the year by a former Director of this Company from a Subsidiary Company.			
437,083			Balance carried down			469,244
£506,447						£591,436
£			Taxation on Profits for the period from April 2nd, 1950, to March 31st, 1951:			£
	56,500		Profits Tax		68,500	
	177,500		Income Tax		203,100	
234,000						271,600
6,000			*Provision for Deferred Taxation, being relief in respect of Capital Expenditure*			—
125,000			*Reserve for Development and for Replacement of Fixed Assets*			—
—			Reserve for Repairs and Maintenance			60,000
	15,000		Preference Dividend at 5 per cent per annum for the year to March 31st, 1951		15,000	
	6,750		*Less* Income Tax		6,750	
8,250						8,250
			Appropriations Proposed:			
	28,648		(i) General Reserve		100,000	
			(ii) On Ordinary Shares to March 31st, 1951			
		£		£		
		53,868	Dividend at 12½ per cent per annum	53,868		
		—	Bonus at 2½ per cent per annum ..	10,774		
		53,868		64,642		
		24,240	*Less* Income Tax	30,705		
	29,628				33,937	
58,276						133,937
100,454			Balance, carried to Balance Sheet ..			95,911
£531,980						£569,698

April 1st, 1950 £		£	£
454,352	Balance of Trading Profits, before charging depreciation, contributions to Staff Pension Scheme, and Directors' remuneration ..		547,549
29,756	Interest and Dividends (gross) from Trade Investments		30,247
20,950	Profits of three Subsidiary Companies ..	11,103	
1,389	Dividend received from the remaining Subsidiary	2,537	
			13,640
£506,447			£591,436
£			£
437,083	Balance brought down		469,244
94,897	Balance at April 1st, 1950, brought forward ..		100,454
£531,980			£569,698

So runs a letter written to Mr James Dunn of Dublin, on April 15th, 1778, in the quill-pen hand-writing of Lewis Berger whose name is now borne by the well-known paint-making company, Lewis Berger & Sons, Ltd. A photo copy of the letter, now brown with age, is inserted in the company's 1951 accounts. As we all know only too well, prices are still going up.

Bergers in 1951 visualize the time when the paint industry will be independent of linseed oil for paint manufacture. Since the war, Styrene Co-Polymers

EDGAR ALLEN & COMPANY LIMITED
Balance Sheet, March 31st, 1951

April 1st, 1950 £	*April 1st, 1950* £		£	£
		Capital		
		Authorized:		
		300,000 5 per cent Cumulative Preference Shares of £1 each	300,000	
		500,000 Ordinary Shares of £1 each	500,000	
			£800,000	
		Issued and Fully Paid:		
	300,000	300,000 5 per cent Cumulative Preference Shares of £1 each	300,000	
	430,945	430,945 Ordinary Shares of £1 each	430,945	
730,945				730,945
		Capital Reserves		
	6,044	Excess Profits Tax Post-war Refund Suspense Account, balance	6,044	
	—	Surplus on Revaluation of Fixed Assets	844,216	
6,044		(as per Statement 2, annexed)		850,260
		Revenue Reserves and Undistributed Profits		
		General Reserve		
	246,352	As at April 1st, 1950	275,000	
	28,648	*Add* Appropriation proposed per Profit and Loss Account	100,000	
	275.000		375,000	
	275,000	Reserve for Development and for Replacement of Fixed Assets ..	275,000	
	—	Reserve for Repairs and Maintenance	60,000	
	100,000	Reserve for Contingencies in respect of Stock and Contracts in progress	100,000	
		Profit and Loss Account		
	100,454	Balance after providing for proposed dividend and appropriation to General Reserve, as per Account annexed ..	95,911	
750,454				905,911
1,487,443				2,487,116
	160,000	**Income Tax due January 1st, 1950**	185,500	
	6,000	*Add* Deferred Taxation being relief in respect of Capital Expenditure	6,000	
166,000				191,500
65,050		**Amount Set Aside for Pensions**		65,050
		Current Liabilities		
	237,157	Sundry Creditors, Accrued Charges and Provisions ..	270,908	
	110,246	Income Tax and Profits Tax ..	120,138	
	—	Provision for Preference Dividend half year to March 31st, 1951 (less Income Tax) – since Paid ..	4,125	
	29,628	Proposed Dividend and Bonus on Ordinary Shares (less Income Tax)	33,937	
377,031				429,108
£2,095,524				£3,172,774

Notes:

1. For particulars relating to the Profits and Losses of Subsidiary Companies see Statement annexed hereto.
2. Capital commitments outstanding amount to approximately £85,300.

April 1st, 1950 £	*April 1st, 1950* £			£	£
		Fixed Assets (valued as per Statement 1 annexed)			
	221,772	Freehold and Leasehold Land and Buildings		601,892	
	117,681	Fixed Plant and Machinery ..		512,409	
	45,012	Loose Plant and Tools		71,029	
	8,494	Motor Cars		8,826	
	5,843	Office Furniture and Fixtures ..		29,129	
398,802					1,223,285
		Subsidiary Companies and Trade Investments			
		Subsidiary Companies			
88,318		Shares at cost less amounts written off		88,318	
		Current Accounts including Profits earned			
	80,673	Due by Subsidiaries	£80,181		
	5,393	Due to Subsidiaries	19,439		
75,280				60,742	
				149,060	
		Trade Investments at cost			
		Quoted (Market Value at March 31st, 1951, £54,398) ..	£20,066		
		Unquoted	23,371		
	43,562		43,437		
	12,972	*Deduct* Amounts provided or written off	12,972		
30,590				30,465	
					179,525
		Current Assets			
	743,718	Stock-in-trade and Work in progress as taken and valued by the Company's Officials ..		842,506	
	560,143	Sundry Debtors, Bills Receivable and Payments in Advance, less provision for bad and doubtful debts		690,278	
	198,673	Cash at Bankers and in Hand ..		237,180	
1,502,534					1,769,964
£2,095,524					£3,172,774

W. H. HIGGINBOTHAM }
H. DONALD BOYD } *Directors.*

REPORT OF THE AUDITORS TO THE MEMBERS OF EDGAR ALLEN & CO LTD

We have audited the above Balance Sheet and annexed Profit and Loss Account and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for that purpose. So far as appears from our examination proper books of account have been kept by the Company.

In our opinion and to the best of our information and according to the explanations given us, the said Balance Sheet and Profit and Loss Account, which are in agreement with the books of account, give the information required by the Companies Act, 1948, in the prescribed manner and give a true and fair view in the case of the Balance Sheet of the state of the Company's affairs as at March 31st, 1951, and in the case of the Profit and Loss Account of the profit for the year to that date.

PEAT, MARWICK, MITCHELL & CO,
Chartered Accountants, Auditors.

Sheffield and London, July 23rd, 1951.

EDGAR ALLEN & COMPANY LIMITED

Statement (1) Summary of Fixed Assets

	As Valued by Messrs Wheatley, Kirk, Price, & Co of London at January 31st, 1948	Additions (at cost) to April 1st, 1950	Disposals to April 1st, 1950	Depreciation to April 1st, 1950		Net Balance as at April 1st, 1950	Year to March 31st, 1951			Balance at March 31st, 1951, per Balance Sheet
				Provided in Accounts	Additional Provision now made (on basis of revaluation)		Additions (at cost)	Disposals	Depreciation (as per accounts)	
	£	£	£	£	£	£	£	£	£	£
Freehold and Leasehold Land and Buildings	649,075	9,502	220	10,833	37,060	610,464	14,257	—	22,829	601,892
Fixed Plant and Machinery	571,461	73,777	6,320	69,801	46,077	523,040	50,206	2,785	58,052	512,409
Loose Plant and Tools	87,171	8,616	112	11,411	8,900	75,364	6,041	—	10,376	71,029
Motor Cars	3,070	8,149	1,010	1,744	—	8,465	4,752	1,830	2,561	8,826
Office Furniture and Fixtures	28,791	5,492	—	1,645	4,943	27,695	4,570	—	3,136	29,129
	£1,339,568	£105,536	£7,662	£95,434	£96,980	£1,245,028	£79,826	£4,615	£96,954	£1,223,285
				$\underbrace{\qquad\qquad}_{\text{£192,414}}$						

SUMMARY

	£	£
The total value of the above-mentioned Fixed Assets, as revalued by Messrs Wheatley, Kirk, Price & Co, Industrial Valuers and Surveyors, of 2 South Audley Street, London, W1, at January 31st, 1948, was	1,339,568	
Additions at Cost, less Disposals, to April 1st, 1950, have been	97,874	
		1,437,442
Depreciation up to that date had already been provided in the Accounts to the extent of	95,434	
and additional provision on the revalued basis has now been made (by deduction from the surplus disclosed on revaluation) amounting to	96,980	
		192,414
Leaving net values as at April 1st, 1950 (Statement 2 annexed) at		1,245,028
Additions at cost, less Disposals, year to March 31st, 1951		75,211
		1,320,239
Less Depreciation, year to March 31st, 1951		96,954
Balance at March 31st, 1951, per Balance Sheet		£1,223,285

Statement (2) Surplus on Revaluation of Fixed Assets

	Total	Freehold and Leasehold Land and Buildings	Fixed Plant and Machinery	Loose Plant and Tools	Motor Cars	Office Furniture and Fixtures
	£	£	£	£	£	£
Balance on Revaluation at April 1st, 1950, per Summary of Fixed Assets	1,245,028	610,464	523,040	75,364	8,465	27,695
Balance per Balance Sheet at April 1st, 1950	398,802	221,772	117,681	45,012	8,494	5,843
Surplus at April 1st, 1950	846,226	388,692	405,359	30,352	(—29)	21,852
Deduct Residual value of Plant etc. sold or scrapped during year ..	2,010					
Surplus at March 31st, 1951	£844,216					

Ltd has been formed in conjunction with the Petrochemicals group to make media for decorative paints only from the styrene co-polymers.

This development, however, has opened a new field. A styrene co-polymer called xylostyrene distillate has been found from which is produced Scopac 161 which, compounded with rubber, provides a leather substitute, with all the properties of leather but with far greater durability and at lower cost.

The latest discoveries, the board states, penetrate virtually virgin fields; and it is the task of manufacturers not merely to find new fields to plough but rather to select that which shall be first developed.

Clearer View

A closer view of the properties of London and Westcliff Properties Ltd is provided in the accounts to September 30th, 1950, which have recently been issued. Freeholds and leaseholds, which until now have been shown in one item, have been separated and as the directors point out in their report, it is now evident that by far the greater part of the properties is in the form of freeholds, which account for £896,816, or more than three times the leasehold figure of £272,605. The distinction between the two types of property is important particularly in the case of a property-owning company.

The directors have decided that it is unnecessary to make any further provision for amortisation of the leasehold properties in view of the reserve made for the redemption of the company's debenture stock, which by redemption and cancellation has been reduced from £350,000 to £301,800. The whole of the present outstanding debenture stock and most of the mortgages (£173,973), they state, will have been redeemed long before the first of the company's leaseholds falls due for reversion.

Money Market

Applications for Treasury bills totalled £341,395,000 on August 17th and the market obtained 68 per cent of requirements. The average rate was 10*s* 3·02*d* per cent and this week's offer is maintained at £260 million, balancing maturities. There is no call against Treasury deposit receipts although maturities total £30 million.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Wet Water'

SIR, – In reply to Mr H. A. Briscoe's letter of July 28th, I should like to suggest that accountants use the expression 'historical cost' quite generally, and quite correctly, to distinguish actual expenditure or cost, from standard cost which is not necessarily of the past.

Possibly it is to this latter expression that your correspondent is objecting, and would prefer the use of the phrase 'standard estimate'.

Yours faithfully,

Manchester, 1. EDWARD SHIRES, A.C.A.

The Qualified Accountant in Industry

SIR, – As a Welshman I feel rather diffident about joining in this minor 'War of the Roses', but my Celtic fervour is roused by Mr J. Rose's suggestion that a headlong plunge into the deep end is sound, practical experience. The thought of a newly-qualified accountant, flushed with examination successes, and with 'Recta Numerare' stamped all over him, floundering and thrashing about in an organization which has taken many years hard work to build up, horrifies me – as I am sure it would Mr J. Rose.

On the other hand, Mr T. G. Rose and Sir Harold Howitt talk about costing and financial forecasting as though these were not routine accountancy matters. They most certainly are, and should be fully covered in the Institute's examination syllabuses. Furthermore, they should concern professional people as much as the industrial accountants.

Yours faithfully,

Chelmsford, Essex. G. E. U. PRICE, A.C.A.

Speed in Production of Monthly Accounts

SIR, – With reference to my letter published in your issue of June 23rd, it appears from replies that where companies do prepare monthly accounts, the date of issuing these compares favourably with the approximate date on which the accounts of the Caterpillar company were produced.

While the amount of precision required influences the date by which the accounts can be produced, this is a matter of degree as monthly accounts need not be correct to the penny. Work in progress and raw material stock are taken from card records which are checked by a physical stocktaking and a continuous inventory. Statements are requested from suppliers, but the same pressure is not exerted monthly as at the close of the financial year; all goods inwards and services are the subject of a 'goods received note' by the stores or service department concerned, from which a schedule of reserves can be built up.

As suggested, a detailed time-table is prepared which is established each year after consultation with senior accounting staff. Once fixed, dates are not varied and a chaser is responsible for progressing all work.

A convenience arises by machine posting the nominal ledger as opposed to hand. Individual items of invoices etc. are not posted under the expense code, but totals which are provided on tabulations from punched cards. A card is punched for each purchase invoice, which is withdrawn from the batch when the invoice is passed. At the end of the month the undrawn cards provide the data for the reserves.

I suggest that the requirements of any accounts department to produce financial accounts speedily are as follows:

1. A detailed time-table, establishing a carefully co-ordinated routine.
2. An adequate stores control system, with continuous inventory, to ensure that recorded stocks and actual do not vary to any degree.
3. Closing of the bought ledger by the 5th and an efficient system of goods receiving.
4. Sales invoices to be typed daily, and sales day books closed on the 2nd, subject to delay in receiving advice notes from depots or works.
5. Mechanization of accounting routine and the greater use of punched cards for detailed tabulations.
6. The will to produce the accounts on time whatever may be the difficulties due to holidays, sickness, etc.

Yours faithfully,

G. F. BROWN, F.C.W.A., F.C.I.S.

Wolverhampton.

Indian Income Tax

SIR, – In your comments (issue dated June 30th, page 640) in which you quote the *Financial Times* on the Indian Income Tax (Amendment) Bill, 1951, there are two misapprehensions. Under the *present* Act an employer is not permitted to deduct a bonus paid if the Income Tax Officer considers it excessive. Commission paid under a service agreement is allowable under either Act.

A company, which is not a company in which the public are substantially interested within the definition of the Amendment Bill, does not lose much in the way of *tax* advantages. The only concession of which a 'public' company can take more advantage is a reduction of half an anna in the rupee on so much of nine-sixteenths of its taxable profit as exceeds the dividend paid. A company not being a 'public' company is subject to the private company provisions and must distribute 60 per cent of its taxable income less the tax thereon. The real hardship arises in the enforced distribution of profits, which makes ploughing back virtually impossible.

Yours faithfully,

Madras, 2. R. G. N. PRICE.

Orthodox Profits

SIR, – I am accused by Mr H. A. Briscoe in his reply (August 4th issue) to my recent letter, of avoiding the main issue arising from replacement accounting, namely that it is 'unfair'. With regrets, I must insist that the writer is again failing to distinguish between the method of replacement accounting, which tries to bring to light changes in real money wealth, and the excuse it may provide for higher prices. I fail to see how it is 'unfair' for accounts to be presented so as to show such changes in wealth to the management and shareholder. I contend that the possibility of resulting higher prices is irrelevant to the method of presenting accounts, and that in any case such price increases arise to a major degree from market conditions.

The relative positions of the Government bondholder and the equity holder on realization cannot help the discussion of accounting methods. These do not determine the surplus, but merely analyse it.

Yours faithfully,

Stockport, Cheshire. T. WEATHERBY.

SIR, – I am not an accountant and, while I have tried to keep in touch with economic thought, it is just forty years since I took a degree in economics. I have, however, been following with great interest the correspondence in your columns with regard to 'orthodox versus replacement' methods of calculating profit.

I cannot understand the view that the allowance of replacement values unduly favours the equity holder as against preference shareholders and other holders of prior charges.

Preference dividends, debenture interest and the like are first charges on a company's profits. Anything which strengthens the company improves the cover for such dividends or interest, and anything which weakens it has the opposite effect. Failure to put aside adequate amounts to maintain a manufacturing concern's buildings, plant and equipment cannot benefit those who have a first charge on its profits.

Taking a short view, if anyone suffers as the result of setting aside amounts for the maintenance of capital assets on a replacement basis instead of on a basis of lower original costs, it is the ordinary shareholders, because the amount available for ordinary dividend is thereby reduced. Taking the longer view, the ordinary shareholders also will suffer in due course, if so much is paid out in dividends that the company finds itself unable to maintain its capital assets in the required state of efficiency.

Inflation is a wickedly unfair form of national finance which bears with special hardship on holders of securities with a fixed return. They will, however, not be any better off if those responsible for company finances leave their companies with resources inadequate to meet increased replacement costs.

Yours faithfully,

Werrington, Peterborough. G. E. TOULMIN.

Quoted and Unquoted Investments

SIR, – An auditor contends that where trade investments include quoted and unquoted investments it is necessary to show the two classes separately in the balance sheet and to give the market value of the quoted. Since he has carried his contention to the point of qualifying his report, the views of your readers would be welcome.

Yours faithfully,

MENTHAB.

CURRENT LAW

Contract: Breach

The Accountant for March 25th, 1950, dealt briefly with the decision of the Court of Appeal in *Sethia (1944) Ltd v. Patabmull Rameshwar.* The case concerned a contract for the shipment of jute from India to Italy, in which the Indian sellers failed to deliver owing to the fact that they could not obtain the necessary licence. They knew that shipments were permitted only under licence, that this had to be based on a basic year selected by them and that they had made no selection. They claimed that they were relieved from liability. The Court of Appeal held otherwise and their conclusions and reasonings have been upheld by the House of Lords. (*Law Times,* July 13th, 1951.)

Trustee: Power of Appointment

The Court of Appeal dismissed the appeal of the defendant in *Re Power's Settlements Trusts; Power v. Power* (*Law Journal,* July 20th, 1951) from the decision of Wynn-Parry, J. ([1951] 1 All E.R. 932). A settlor vested in himself for life and after him in the defendant for life the power of appointing a new trustee or trustees. The defendant asserted that he had power under Section 36 (6) of the Trustee Act, 1925, to appoint himself an additional trustee. Section 36 (1) of the Act enacts that in certain circumstances the person nominated for the purpose

> 'may, by writing, appoint one or more other persons (whether or not being the persons exercising the power) to be a trustee or trustees in the place of the trustee so deceased, remaining out of the United Kingdom, desiring to be discharged. . . .'

The Master of the Rolls, Sir Raymond Evershed, said that where it was a case of replacing a trustee who had vacated his office, the donee of the power could appoint himself; but not where another trustee was merely being added to those already in office. The words in parentheses in Section 36 (1) did not appear in Section 36 (6) and could not be read into it, contrary to the decisions given before the Act came into effect.

Bankruptcy: Relation Back

By failing to comply with a bankruptcy notice a debtor committed an act of bankruptcy on September 8th, 1949. On October 4th he was ordered to pay a £10 fine for contempt of Court and his furniture was seized by the high bailiff on November 4th pursuant to warrants dated October 17th. On November 11th a petition was presented against him. On November 15th the high bailiff, in ignorance of the petition, sold the furniture and retained the sum of £10. A receiving order was made on December 14th and the debtor was adjudged bankrupt on January 5th, 1950. The trustee claimed to recover the £10 on the ground that his title related back to September 8th, 1949.

Danckwerts, J., held that he could not succeed. By Section 40 of the Bankruptcy Act, 1914, a creditor who had completed execution before the receiving order was made and without notice of the presentation of the petition or of the act of bankruptcy was entitled to retain the money he had received (*Re Love; ex parte Official Receiver (Trustee) v. Kingston-upon-Thames County Court Registrar* (*Law Times*, July 13th, 1951)).

Revocation of Probate

Under a grant of probate two executors had administered certain estate of the testator, but could not deal with estate in Argentina owing to currency restrictions. The executors were failing in health and thus unable to carry out their duties. They and all interested parties petitioned the Court to revoke the grant and to grant administration *de bonis non* to the applicant.

Karminski, J., said that the case was novel, but the object of the Court was to keep in mind 'the due and proper administration of the estate and the interests of the parties beneficially entitled thereto', and he accordingly made the order (*Re Galbraith (deceased)* (*Law Journal*, July 20th, 1951)).

Attornment Clause in Mortgage

The *Law Journal* for July 27th, 1951, gives another decision of Danckwerts, J., on the subject of attornment clauses in mortgages, the learned Judge saying that this case illustrated the undesirability of retaining attornment clauses which served no useful purpose. The Steyning and Littlehampton Building Society tried to enforce against a borrower on mortgage a claim for delivery and possession of the mortgaged property. The borrower resisted on the ground that the property covered by the mortgage was agricultural land and that the notice served on him was invalid by reason of the Agricultural Holdings Act, 1948, Sections 2 (1) and 23 (1).

Danckwerts, J., held that the attornment did not create an agricultural tenancy within the Act, which applied only to true transactions between landlord and tenant - tenancies created for the purpose of farming the land. The notice to quit was, therefore, effective (*Steyning and Littlehampton Building Society v. Wilson*).

Company's Share Premium Account

The Accountant for May 5th, 1951, gave the decision of Harman, J., in *Re Duff's Settlements Trusts. National Provincial Bank Ltd v. Gregson and Others*, in which he held that moneys paid to a company's share premium account, being the premium on shares allotted, were capital assets and not income. In 1950 the company paid out of the account the sum of 2*s* 6*d* per share and the trustee of the settlements sought to discover whether the moneys so received by the trust were capital or income.

The Court of Appeal held (*Law Times*, August 3rd, 1951) that Section 56 of the Companies Act, 1948, under which the account was constituted, took the account out of the category of divisible profit and prevented the distribution of the moneys as dividend, that the transaction was to be treated as if the company was reducing its capital by paying off paid-up share capital; and thus the moneys were to be treated as capital.

Pension: Estate Duty

In *Re Payton (deceased); Payton v. C.I.R.* (*Law Times*, July 20th, 1951), a company employee was entitled to a pension which he could exchange for a 'last survivor pension' for a less annual sum for the benefit of his wife if she should survive him. It was declared by the policy by which the pension was provided that the company should hold it and all benefits payable under it in trust for the beneficiaries. A pensioner who had exercised this option retired on November 21st, 1945, and died on February 17th, 1946, and the Revenue claimed duty on the actuarial value of the pension as at the date of death, as on property passing at death, under Section 1 of the Finance Act, 1894.

The Court of Appeal held that nothing passed on death, as there had not come into existence a continuing item of property distinct from the respective beneficial interests of the pensioner and his widow.

Bailment: Breach of Contract

The plaintiff in *Alexander v. Railway Executive* (*Law Times*, July 20th, 1951) deposited luggage with the defendants on the conditions (*a*) that they should not be liable for more than £5 unless the true value was disclosed by the depositor and an extra charge paid; (*b*) that the luggage should be redelivered only on production of the ticket; (*c*) that depositors were not given access to luggage deposited. The defendants allowed a third party access to the luggage and allowed him to take certain articles away. This was done under indemnity. The third party redeposited the luggage and received tickets through which he later claimed and received back the remainder. The owner claimed damages for breach.

Devlin, J., held that he was entitled to recover. The defendants were guilty of a breach of their contract and they could not thus rely on the conditions which restricted their liability.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Results of June 1951 Examinations

FINAL EXAMINATION

Successful Candidates – Home Centres

First Place (S. Laurence Gill Prize)
Leverhulme Prize (bracketed).
Maitland, Kenneth Roy, Manchester.

(In alphabetical order)

Adams, C. E., Birmingham.
Adderley, A., Coventry.
Adkins, L. W., Leicester.
Allison, R., Nottingham.
Ariss, W. J., Coventry.
Arrandale, D. R., Sheffield.
Ashmawi, I. A., London.
Astley, P. M., St. Anne's-on-Sea.
Austin, J., Motherwell.

Baggaley, S. J., Derby.
Baggott, J., Birmingham.
Baker, H. A., Grantham.
Barber, D., Manchester.
Barker, K. H., Stourport-on-Severn.
Barker, L. K., Kirkaldy.
Barlow, H., Stockport.
Barrington, R. L., Bristol.
Barrow, G. F., Berkhamsted.
Bayley, J. C., Croydon.
Benskin, F. W., Hove.
Bentley, S., Leek.
Billson, S. H., Leicester.
Bird, S E., Manchester.
Blakey, F. T., Birmingham.
Bodell, E. H., Dublin.
Bolt, F. W. G., Mitcham.
Bradshaw, F. L., Chesterfield.
Broadbent, J., Manchester.
Broadberry, J. A., Cromer.
Brodie, D. M. Coatbridge.
Brown, Frank, London.
Buck, B. V., Enfield.
Bunce, J. R., Gerrards Cross.
Buyers, C. I., Glasgow.
Bygate, R. A., Durham.

Carnie, W. G. F., Edinburgh.
Carter, S., Rotherham.
Champion, L. M., London.
Chappell, K., Dewsbury.
Chater, L., Birmingham.
Clare, F., Bedford.
Clark, T., Leeds.
Clark, W. J. A., Liverpool.
Clarke, G. P., Wallington.
Clarke, W. C. L., Harrow.
Clayton, D. T., Manchester.
Clegg, D. F , London.
Clegg, V., Huddersfield.
Collins, G. J., Kettering.
Cooke, J. E., Leeds.
Cooper, R. W., Bacup.
Cottam, G. P.-T., Lincoln.
Cowell, F. H. G., Ashford, Kent.
Cox, A. T., Bristol.
Cressey, T. R. J., Camberley.
Crotty, A., Croydon.
Crump, S. A., Hounslow.
Cutbill, D. H. F., Croydon.

Dearlove, F., Middlesbrough.
Derham, F. S., Weston-super-Mare.
Dimmock, E. P., Barnhurst.
Doak, J. T. M., Greenock.
Doley, J. C., Birmingham.
Douglas, D. C., Glasgow.
Dunlop, J. W., Glasgow.

Easson, J. W., Glasgow.
East, G. V., Oldham.
Eden, D. O., Ashby-de-la-Zouch.
Edge, W. G., Birmingham.
Edwards, H. C., Wembley.
Egerton, P. G., Northwich.
Elton, L. G., Leicester.
Elwell, S. D., Walsall.
Evans, D., Willenhall.
Evans, N. J., Perivale.
Evans, R. E., Hengoed, Glam.

Farmer, N., Greenford.
Farquharson, A. I. G., Glasgow.
Fawthrop, R. A., Shipley.
Fergus, R. B., Glasgow.
Ferguson, R. F., London.
Filtness, V. H. A., Hornchurch.
Foster, N. H., Wallington.
Fotheringham, J. D., Dundee.

Galpin, V. J., Portsmouth.
Garland, J. C., Bristol.
Geekie, J. C., London.
Gibb, W. F., Leigh, Lancs.
Giles, W., Belfast.
Gilmartin, J., London.
Gledhill, S. T., Heywood.
Godden, K. G., Coventry.
Gooby, R., Manchester.
Goodey, F. R., London.
Gould, R. W., Paignton.
Gowans, R. M., Auchendinny.
Graham, J. N., Newcastle-upon-Tyne.
Gray, C., Bristol.
Gray, J. A., Sheffield.
Greenwood, W., Todmorden.
Griffiths, E. J., Newport, Mon.
Grimoldby, M., Doncaster.
Grinter, R. A., Hayle.
Guilford, D. B., Selsey.

Haigh, E., Leeds.
Haines, J. F. H., Wraysbury.
Hallam, J. J., Chesterfield.
Hamilton, J., Birmingham.
Hamlin, V. J., London.
Hammond, J., Manchester.
Hargreaves, E. G., Timperley.
Harper, J. M., Johnstone.
Harrie, G. C., London.
Hawley, F., Birmingham.
Haworth, J., Hereford.
Heapey, J., Huddersfield.
Heaton, H., Leeds.
Henderson, G. S., Lasswade.
Hepper, T. W., Stamford.
Hesp, F. H., St Helens, Lancs.
Hewitt, J., Newcastle-upon-Tyne.
Hill, W. H., Dewsbury.
Hindley, A. J., Cheadle.
Hobbs, L. N., London.
Hodgson, C., York.
Hodgson, S. R., Ilford.
Holme, J., Edinburgh.
Hough, J., Dukinfield.
Howlett, H. D., Salford.
Hutchinson, G., Sheffield.

Jackson, D. C., Birmingham.
Jackson, H. G., Gedling, Notts.
Jackson, J., Salford.
James, C. E., Harpenden.
Jardine, P., Blackburn.
Jeffrey, F. H., Twickenham.
Jephson, W., Scunthorpe.
Johnson, W. L., Chester.
Johnstone, J. B., Aberdeen.
Jones, F. C., Birmingham.
Jones, J. C., Manchester.

Kean, E. J., Welwyn Garden City.
Keenan, J. G., London.
Kennedy, G., Manchester.
Kerby, E. L., Portsmouth.
Kirby, E. R., London.
Kirk, R., Congleton.
Knowles, E. A., Southall.

Laws, H. D., Glasgow.
Ledgerwood, G. W., Bebington.
Lenton, A. J., Bedford.
Lewis, F. W., Harrow.
Lewis, H. C., Liverpool.
Linford, K. J., London.
Llewellyn, E., Pontardulais.
Logan, P. A., Richmond, Surrey.
Low, H. I., Edinburgh.
Lowe, G. B., Bolton.
Lowenthal, A. G., Birmingham.

McArthur, L., Glasgow.
McClelland, J., Belfast.
MacColl, A. B., London.
McCulloch, W. F., Bromley.
MacDiarmid, J. R., Loughborough.
McDonald, A., Bo'ness.
Maclay, I. M., Much Hadham, Herts.
Maclean, D. B., Glasgow.
Mahony, D., London.
Mann, G. W., Nottingham.
Manser, D. A. J., Southbourne.
Mason, J. C., London.
Mathews, L., Heywood.
Matthews, C. S., Leicester.
Matthews, E., Leicester.
Miller, A. B., Glasgow.
Miller, J. L. W., Dublin.
Mills, C., Chester.
Milward, K. G., Nottingham.
Moger, B., London.
Moorman, W. H. S., Surbiton.
Morris, W. H., Edgware.
Mullinger, B. R., Bexleyheath.
Murphy, W. E., London.
Murray, B., Bournemouth.

Murray, J. C., Wallsend.
Murray, W., Glasgow.

*Naylor, L. T., Gravesend.
Nuttall, J., Manchester.

Onslow, S. T., Blackpool.
Owen, W. H., Dover.

*Palmer, B. A., Nottingham.
Parkin, E. J., Wolverhampton.
Partridge, A. T. M., Leicester.
Paternoster, I. C., London.
Pearson, K., Middlesbrough.
Pearson, R., Rotherham.
Pendrill, J. W., Chorley.
Peterson, Doris, Walton-on-Thames.
*Phillips, A. A., Glasgow.
Phillips, D. W., Weston-super-Mare.
Pinto, J. H., London.
Pollitt, T. W., London.
Porteous, J., Linlithgow.
Porton, W., Sheffield.
Pouch, F. H., Brentwood.
Price, C. W., Harrogate.
Prigmore, M. A., London.
Proctor, R., Sheffield.

Rabey, W. B., Kilbirnie.
Ramsay, C., Glasgow.
Randell, R. J. A., Croydon.
Ratledge, S. A., Gateshead.
Rattray, J. G., London.
†Rawle, L. J., Tiverton.

* Donald L. Moran Prize.
† Leverhulme Prize (bracketed).

Renel, C. V., Mitcham.
Richards, A. D., Cardiff.
Richards, H. J., London.
Richardson, J., Ilford.
Robb, R. W., Glasgow.
Roberts, I., Newcastle-under-Lyme.
Rogers, W. R., Croydon.
Rose, J., Liverpool.
Russell, H. W., Glasgow.
Ryan, J. J., Northampton.

Sale, E. A., Sale.
Saville, D. E., Warlingham.
Scarth, W., Hetton-le-Hole.
Sherwood, S., Croydon.
Shimmin, A. G., Manchester.
Shire, R. M., Walsall.
Sibley, D. R., London.
Silcox, D. A., Derby.
Sinclair, B. S., London.
Singer, A., Sheffield.
Smallwood, C. H., Bristol.
Smith, D. W., Armadale.
Smith, J. M., Glasgow.
Smith, K. J., Andover.
Snook, L. A., Poole.
Stephenson, W., Durham.
Stevens, R., Sheffield.
Stevenson, W., Belfast.
Stones, E., Swinton.
Stratton, J. F., Salford.
Stringer, E., Congleton.
Sugden, J. A., Manchester.
Sykes, D., Huddersfield.

Tait, R. L., South Shields.
Tattersall, D. R., Birmingham.
Teape, D. B., Glasgow.

Thomas, E. A., Coventry.
Thomson, J., Preston.
Thomson, R. O., Coatbridge.
Tomkins, W. F., Warwick.
Towill, R. C., Swindon.
Tratt. W. H., Bristol.
Trotman, E. B., Dunstable.
Tubb, A. J., London.
Turner, J. K. G., Birmingham.
Twist, A. N., Wigan.
Tye, J., London.
Tynan, P. V., Cork.

Vernon, S., Carshalton.

Walker, A., Slough.
Wall, A. J., Birmingham.
Wall, T., Derby.
Wardlaw, A., Newcastle-upon-Tyne.
Wareing, R., Warrington.
Waterson, M., Sheffield.
Watson, M. A., Manchester.
Watts, J. L., Basingstoke.
Webber, S. I., Rochdale.
Westwood, F. J., West Bromwich.
White, A. W., Baillieston.
Whyte, W. G., South Shields.
Wilkinson, J. F., Birmingham.
Williams, D. A., Cheltenham.
Williams, E. A., Nuneaton.
Willson, J. W., Hayes, Middx.
Wing, P. W., Bletchley.
Wood, W. M., Huyton.
Woollard, A. J., Ipswich.
Wordsworth, D., Heckmondwike.
Wynn, A., Wakefield.

Young, R., Glasgow.

286 Candidates passed ***835 Candidates failed***

Successful Candidates – Overseas Centres

Basu, S. K., Burdwan, West Bengal.
Bedingfield, S. G., Lusaka.
Bickford, J. R., Gatooma, S. Rhodesia.
Boad, C., Nairobi.
Burrows, A. D., Edenvale, S. Africa.
Burrows, S., Nairobi.

Callaghan, T. J., East Rand, S. Africa.
Chesters, B., Durban.
Chitre, M. N., Calcutta.

Davis, B. M., Johannesburg.

Friedman, J. A., Pretoria.

Gillies, N. C., Johannesburg.
Goulden, C. H., Cape Town.

Harvey, G. F., Johannesburg.

Henson, F. T., Nairobi.
Highley, I. G., Hong Kong.

Jansen, K. F., Johannesburg.
Joseph, K. J., Karachi.

Kashyap, R. S., Bangalore.
Kinnaird, W., Eerstemyn, S. Africa.
Krinker, R., Genoa.
Krishna, K. B., Bangalore.

Lawrance, C. N., Pretoria.
Lemmer, J. J. F., Ermelo, S. Africa.
Levitt, W. H., Durban.

MacLaren, W. K., Johannesburg.
Miller, S., Johannesburg.
Mills, D. M., Uitenhage, S. Africa.
Morrison, P. D., Johannesburg.

Nunes, C., Johannesburg.

Ojha, R. K., Calcutta.

Padmanabhan, K., Bombay.
Pile, W. J., Alexandria.

Rasappan, C. V., Bombay.
Ryall, K. D., Calcutta.

Scholes, R. E., Geneva.
Scrivin, F., Nairobi.
Shome, B. K., Calcutta.
Smith, H., Lagos, Nigeria.
Stewart, D. B., Calcutta.

Tikhe, J. G., Bombay.

Ward-Smith, A. H., Johannesburg.
Wylie, J. G., Montreal.

43 Candidates passed ***159 Candidates failed***

Summary of Results

		Intermediate				
	Preliminary	*Part I*	*Part II*	*Parts I and II*	*Final*	*Total*
Passed	6	422	504	141	329	1,402
Failed	22	679	392	208	994	2,295
Total	28	1,101	896	349	1,323	3,697

The December 1951 examinations will be held at the usual home and overseas centres on December 10th, 11th and 12th, and applications on Form C (available from the Institute's headquarters, 63 Portland Place, London, W1, on receipt of an addressed label) should reach the Institute by not later than October 26th from home candidates and September 8th from overseas candidates.

STUDENT ACCOUNTANTS AT CRICKET

Teams from the Chartered Accountant Students' Society of London and the Incorporated Accountants' Students' Society of London and District took the field at Barnet Cricket Ground on August 15th.

The Chartered Students won the toss and elected to field. Laxton and D'eath opened for the Incorporated and, with forceful hitting, 50 runs came quickly. With the hundred in sight, Laxton was caught in the deep by Ravenscroft, and Rata ran out D'eath, who had made 77. The slow bowlers, Rata and Ezekiel, now broke through, the only serious resistance coming from Taylor and O'Flynn. The Chartered Students were faced with a total of 197, with just over two hours left for play.

Early lapses made Chartered's score-board look impoverished at 27 for 3. Barton and Laws promised better things however until the latter was run out.

Runs then came quickly until Barton was caught at slip. Rata, rather in the style of Maurice Leyland, went defiantly on, interspersing fours with an occasional six. Ravenscroft resisted, scored an uneasy nine and succumbed. Winn, the last man in, held the fort for ten long minutes and an exciting match ended in a draw.

INCORPORATED ACCOUNTANTS' STUDENTS' OF LONDON

G. P. Laxton, c. Ravenscroft, b. Ezekiel	43
J. T. D'eath, run out	77
V. Lyall, s. Laws, b. Rata	2
K. G. Taylor (*captain*), lbw. b. Ezekiel	18
J. A. Corfield, run out	5
A. H. Smith, lbw. b. House	1
J. E. O'Flynn, c. House, b. Rata	37
L. A. Warren, s. Laws, b. Rata	14
N. Lloyd, b. Rata	0
W. R. McBrien, b. Rata	0
E. T. Allen, not out	0
	197

Bowling: Ravenscroft 4–0–33–0; Colin-Thomé 12–0–64–0; Rata 12–0–59–5; Ezekiel 8–1–32–2; House 4–0–9–1.

CHARTERED ACCOUNTANT STUDENTS' OF LONDON

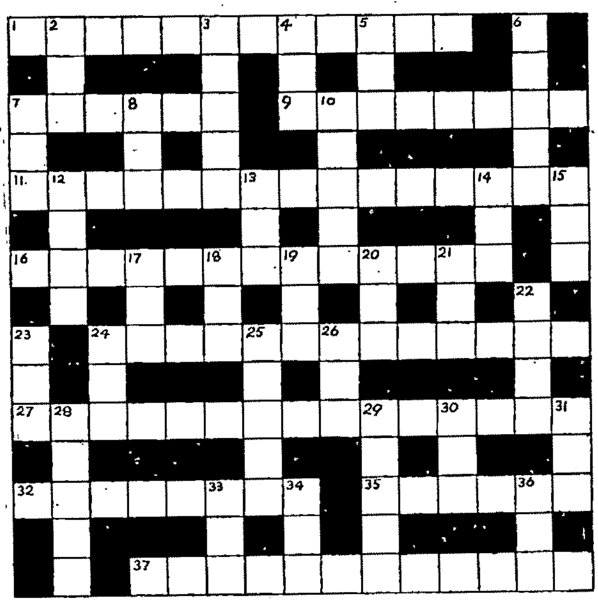
M. House, lbw. b. Warren	6
H. Colin-Thomé, c. and b. Warren	3
D. T. H. Nicholson, run out	5
M. L. Laws, run out	19
B. D. Barton (*captain*), c. Lyall, b. Taylor	46
D. Ezekiel, b. Allen	0
A. G. Stoughton-Harris, s. Laxton, b. O'Flynn	7
D. Rata, not out	58
G. C. Cooper, lbw, b. Warren	1
V. A. Ravenscroft, c. Allen, b. Taylor	9
J. G. Winn, not out	0
Extras:	8
	162

Bowling: Lloyd 11–4–34–0; Warren 12–0–44–3; Allen 6–0–19–1; O'Flynn 6–1–29–1; Taylor 4–1–14–2; Lyall 2–0–14–0.

HOLIDAY CROSSWORD–II

by J. ROSE, A.C.A.

A problem to tax the brain – the clues across have a special appeal!



ACROSS

1. Of benefit to the pro.... (4, 1, 7).

7, 9. .... but this is not cricket (5, 1, 8).

11, 24. We all pay tribute to them (13, 2, 6, 7).

16. The key for fish – not confectionery (6, 7).

27. Angling each crab (anag.) (9, 6).

32, 35. Doodling on the side? (8, 6).

37. No credit here since 1944 (3, 2, 3, 4).

DOWN

2. Seen in the rain (3).
3. Puts by – after 37? (5).
4. The brute lacks two rings (3).
5. In solo a regular call (3).
6. Looked at in a close finish (5).
7. The little physician follows me for a drink (3).
8. Practice (3).
10. Well up in a great deal of theory (5).
12. Play this in a band of commando Boers (4).
13. No good here (3).
14. Alarm (3).
15. The payment of a life endowment policy? (3).
17. Johnson's perfect house (3).
18. Fifty more to score in India (3).
19. Singular chances if plural (3).
20. Not this warning (3).
21. Made from 23 (3).
22. Spoke (4).
23. Be around to corrupt (3).
24. You'd get the sack if the boy were about (3).
25. Flows like water behind the iron curtain (5).
26. Time doll or bag (3).
28. A big stop (5).
29. A white play (5).
30. You will find the Prime Minister at the top of this double street (3).
31. Add yours yourself (3).
33. Refusal in a yester-year (3).
34. The letters for Edinburgh were (3).
36. A feature of Florence – a Roman city (3).

The solution will appear in next week's issue.

NOTES AND NOTICES

Personal

MR FRANK DOWNING, F.C.A., announces that he has admitted into partnership as from July 1st, 1951, Mr PETER G. JORDAN, A.C.A., who has been associated with him for several years. The style and address of the firm remain unchanged as FRANK DOWNING & Co, Chartered Accountants, Rectory Chambers, 24 Norfolk Row, Sheffield 1. Telephone 20905.

National Insurance

INCREASED CONTRIBUTIONS FROM OCTOBER 1ST

The increased rate of contributions laid down in the National Insurance Act, 1946, comes into operation on October 1st, and stamps at the new rates will be available at Post Offices on and from Monday, September 24th.

The amount of the increase in the employed persons' (Class 1) rate is 4*d* in the case of men and women over 18, and 2*d* in the case of boys and girls under that age; the increase is divided equally between the employer's and the employee's share. There are corresponding increases in the Class 2 and Class 3 rates.

A leaflet (N.I.63) setting out the main rates can now be obtained at National Insurance offices and from September 1st will also be available at Post Offices.

The Belfast Society of Chartered Accountants

Details of the chartered accountants students' classes at Belfast College of Technology for the 1951–52 session have now been announced. In addition to the usual first- and second-year Intermediate and the Final first- and second-year courses, an innovation this year is the introduction of a first-year course for new entrants to the profession; the syllabus for this course includes the theory of logarithms, general commercial knowledge and elementary book-keeping and auditing. The annual fees for First-year, Intermediate and Final students are 2 guineas, 3 guineas and 4 guineas respectively.

LIBRARY REVISION CLASSES

Revision classes for Intermediate students intending to sit for the November examinations are to commence in September in the Library at 49 Donegall Place, Belfast, and will be conducted by Mr Alfred Cope, A.I.A., Mr T. P. Gibson, Mr W. L. McClay, A.C.A., A.C.W.A., Mr W. H. Palmer, and Mr D. H. Templeton, A.C.A.

The next series of lectures sponsored by the Institute of Chartered Accountants in Ireland for Final students will commence after Christmas. Those eligible to attend will be notified later.

Institute of Internal Auditors New York

LONDON CHAPTER

In his address at the third annual general meeting of the London Chapter of the Institute of Internal Auditors, the President, Mr P. B. Hills, A.C.I.S., reported that the discussion meetings throughout the year had been very well attended, and that the two series of educational lectures on internal auditing which had been organized in the last session had been an outstanding success. A similar course of lectures will be given during the 1951–52 session.

The officers elected for the year 1951–52 are as follows:

President: Mr H. W. Parker, A.C.A.

Vice-President: Mr R. A. Reid, C.A.

Secretary: Mr A. L. Watson, c/o British Electricity Authority, Eastern Division, West Farm Place, Cockfosters, Herts.

Treasurer: Mr A. H. Abbot.

Board of Governors: The above Chapter officers, the three immediate past-presidents – Mr J. R. Robinson, A.C.A., Mr H. E. Osborn, C.A., and Mr P. B. Hills, A.C.I.S. – and one elected member, Mr W. N. Wright, M.A., C.A.

Mr F. H. C. Funnell, A.C.A., was elected assistant secretary.

The main object of the Chapter is the development of internal auditing as a constructive aid to management; to that end it collects, analyses and disseminates information, and promotes discussions amongst members on the subject and related matters. Membership is limited to those holding responsible managerial positions covering the field of internal auditing, and the Institute grants no qualifications either by examination or otherwise.

Hero of Book-keeping

We are indebted to a reader for the following paragraph from the *Manchester Guardian* of May 18th last, which is reproduced by kind permission of the editor.

> 'East Germany's "activist heroes", who break production records on the Soviet model, have so far included no members of what the West calls the "white collar group". But now the placid pace

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of office life is to be speeded up, thanks to a book-keeper named Gerhard Opitz, who has produced in three days a set of monthly accounts which normally takes twenty days to complete. It was all done, according to the German Communist Press, not by any simplification of the system but by "exact timing of every phase of the work". It is this emphasis on a lack of interruptions which makes one speculate whether this new activist will always be able to maintain his own record. What would have happened, for example, if Herr Opitz, triumphantly entering up the cash in hand and at bank faster than ever before in book-keeping history, had been called to the telephone to hear Frau Opitz reminding him of his promise to collect a parcel from the dry cleaner's on his way home? It would have been like encountering traffic lights on a race track.'

Recent Publications

THE NEW SOCIETY, by Peter F. Drucker. xxviii+339 pp. 8×5½. 15s net. William Heinemann Ltd, London.
BUILDING SOCIETIES' YEAR BOOK 1951. 555 pp. 8½×5½. 18s net. Franey & Co Ltd, London.
TAX CASES, Vol. XXXI, Part VII. pp. 351–392. 9½×6. 1s net. His Majesty's Stationery Office, London.
TWENTY-EIGHTH ANNUAL REPORT OF THE ELECTRICITY SUPPLY COMMISSION, JOHANNESBURG, SOUTH AFRICA, for the Year Ended December 31st, 1950, with a Brief Review of its Activities up to April 30th, 1951. 110 pp. 9½×7.
AN ACCOUNTING TECHNIQUE FOR REPORTING FINANCIAL TRANSACTIONS, by R. K. Mautz, Special Bulletin No. 7 of the University of Illinois Bureau of Economic and Business Research. 91 pp. 9×6. 205 David Kinley Hall, Urbana, Illinois.
CASE STUDIES IN AUDITING PROCEDURE, NO. 9, ON A WHOLESALE DISTRIBUTOR OF NEWSPAPERS AND MAGAZINES. 46 pp. 9×6. American Institute of Accountants, 270 Madison Avenue, New York, 16.
THE PRACTICAL APPROACH TO A COST ACCOUNTING INSTALLATION. 12 pp. 8×5, paper cover. A Cost Bulletin of The Australasian Institute of Cost Accountants.
GROUP ACCOUNTS AND HOLDING COMPANIES, First Edition, by Angus MacBeath, C.A., A.C.W.A., and A. J. Platt, A.C.A. 196 pp. 8½×5½. 17s 6d net, 18s post free. Gee & Co (Publishers) Ltd, London.
MECHANIZING THE LEGAL OFFICE, First Edition, by J. H. Burton, F.S.A.A., F.C.C.S., F.I.M.T.A. 38 pp. 9×5½. 6s net, 6s 4d post free. Gee & Co (Publishers) Ltd, London.
SOME ACCOUNTING TERMS AND CONCEPTS, A Report of a Joint Exploratory Committee appointed by The Institute of Chartered Accountants in England and Wales and by The National Institute of Economic and Social Research. 46 pp. 6×9. 3s net. Cambridge University Press, London.
THE CORPORATION INCOME TAX, by Richard Goode, Department of Economics, Chicago University. xiii+242 pp. 8½×5½. 24s net. Chapman & Hall Ltd, London.
A PRACTICAL EPITOME OF THE DEATH DUTIES, Second Edition, by David Harrison, LL.D. xx+436 pp. 8½×5½. 37s 6d net. Sweet & Maxwell Ltd, London.
OXFORD ECONOMIC PAPERS (New Series). 220 pp. 9½ × 6. 10s net. Subscription price, three numbers 21s post free. Oxford University Press, London.

Our Contemporaries

ACCOUNTING RESEARCH. (July.)
ACCOUNTANCY. (August.) 'Financing International Trade', by H. G. Hodder.
THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (June.) 'To the Nearest Pound', by 'Attic'.
THE ACCOUNTANTS JOURNAL. (August.) 'The Association of Certified and Corporate Accountants: Report of Annual Conference at Buxton.'
THE ACCOUNTANTS' MAGAZINE. (August.) 'Random Thoughts on the Royal Commission on the Taxation of Profits and Income.'
BARCLAYS BANK REVIEW. (August.) 'The Control of Public Expenditure.

Other Publications Received

THE COST ACCOUNTANT. (August.)
THE CHAMBER OF COMMERCE JOURNAL. (August.)
INDUSTRIAL WELFARE AND PERSONNEL MANAGEMENT. (July–August.)
THE BANKER. (August.)
THE SECRETARY. (August.)
LOCAL GOVERNMENT FINANCE. (August.)
DER WIRTSCHAFTSPRUEFER. (Berlin.) (August.)
BULLETIN OF THE OXFORD UNIVERSITY INSTITUTE OF STATISTICS. (July.)
THE ACCOUNTANCY JOURNAL. (Delhi.) (July.)
REVISTA DE LA ESCUELA DE ESTUDIOS CONTABLES. (Monterrey, Mexico.) (July.)
JOURNAL OF THE ROYAL SOCIETY OF ARTS. (August.)
SECRETARIES CHRONICLE. (August.)

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF AUGUST 26th, 1876

Extract from leading article

The City Man

The mental activity necessary to his calling tends not to blunt his faculties of enjoyment, but to sharpen them. Being pent up so long in the town, he appreciates more keenly the delights of nature when he beholds them. As he breasts the mountain he imbibes the pure air with an eager zest, or receives the spray in his face from the waves dashing over the dancing boat with a boyish delight. As he stands on some Alpine peak and gazes across the glorious landscape with its valleys nestled in foliage, and the blue waters of the lakes gleaming in the sunshine, he drinks in such pleasures as the indolent know not of. Watch him as, indulging in the *dolce far niente* in a boat on some Italian lake, he lies stretched out on his back with a cigar or pipe in his mouth – and gazing up at the blue sky while the craft floats gently on the bosom of the waters, he feels he has earned his repose and is enjoying it. Or with knapsack on back he crosses the glaciers and threads the passes of Switzerland, forgetting figures and stocks and shares as though there were no such things in existence. And although there may be a certain amount of 'shop' talked when these men meet together, in what profession will you not find this the case?

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EDUCATION: PROGRESS AND REGRESS

THE recently published memorandum, 'Fifty years of education', gives many cheering facts about the progress of education so far this century.[1] Perhaps the most important of these facts are the improvement in the ratio of pupils to teachers, and the increased number of children who remain at school after the age of 14. In the first year of the century there were 48 pupils per teacher in grant-aided elementary schools. This ratio has fallen steadily each decade and last year was 28 per teacher. For grant-aided secondary schools no figures were available for 1901; ten years later there were 16 pupils per teacher on an average. This ratio tended to increase slightly as secondary education grew in popularity, although the figure of 18·8 for 1950 was slightly below the 1920–38 average. Curiously enough, the number of children in grant-aided schools was much the same in 1950 as in 1901: 5·8 million and 5·77 million, respectively. But in 1901 only 2 per cent of the children over 14 were in grant-aided schools. Last year the percentage was 32.

The fifty years under review were dominated by three outstanding Acts of Parliament: the 1902 Act, which resulted in the enormous expansion of secondary schools, the 1918 Fisher Act, which was afterwards partly frustrated by the 'Geddes' Axe', and the 1944 Act passed when MR BUTLER was in charge of the country's educational affairs. The last of these Acts has allowed signal advances to be made: secondary education is available to all pupils aged 11 and over, and it is free; technical education has received an immense fillip. But many of the useful provisions of the 1944 Act have so far been ineffective on account of the lack of school buildings and a shortage of teachers. Lately, however, a number of administrative actions not directly related to the Butler Act have been taken: these are of extremely doubtful value to the pupil, to the country's educational system, and to the community generally. These administrative actions are connected with the examination system. Some of the changes may well have been decided upon in order to give greater freedom to school and pupil. Others appear to have been taken to placate sectional interests, and others seem to be due to a desire to 'level down'.

The year 1951 is the first in which the old School Certificate and Higher School Certificate have given place to the new General Certificate of Education. The new scheme of examinations differs from the old in a number of important respects. Henceforward, there will be a minimum age limit for taking the examinations which are at three levels. In all these examinations results will be

[1] Cmd. 8244. H.M.S.O. 7*s* 6*d*.

given in two categories only – pass or failure. And, from now on, the subjects may be taken singly or in any combination – a pass in any single subject will entitle the examinee to a General Certificate of Education. Clearly, these changes are of great moment to the professions, the universities, business, and the pupils themselves.

Of these major changes, the one which has provoked the largest amount of criticism is the decision to fix a minimum age limit. The new examination cannot be taken by any boy or girl who has not reached the age of 16 on September 1st in the year of the examination. As is well known, the old 'School Cert.' could be taken at any age; bright pupils of 14 have often been successful in it. The future outlook is even less promising since the MINISTER OF EDUCATION has announced his intention to raise this minimum age to 17 when the school-leaving age is put up to 16. No convincing educational reason has been given for this arbitrary interference with the freedom of the school to conduct its own affairs. The conclusion which many observers have reached is that the decision is designed to avoid the possibility of disparaging comparisons between the secondary grammar school and secondary modern and technical schools. The impression is being sedulously fostered that these three types are on a parity. But this view would be open to challenge if the newer types of school made a practice of entering their pupils for the General Certificate. Comparison of standards is now avoided since most of the pupils in the modern schools leave on attaining the age of 15. This interpretation gains feasibility by the proposal to keep the minimum age one year above the school-leaving age. Such a decision bears hardly in areas where the proportion of grammar school places is small, and where pupils really suited for a grammar school education are forced to attend secondary modern schools.

The new examinations are being conducted at three levels – 'ordinary', 'advanced' and 'scholarship'. In this its first year of operation, the 'ordinary' pass standard required is lower than it will be in the future. From 1952 onwards, the 'ordinary' level will correspond with a 'credit' in the old School Certificate. The other two levels are equivalent to the Higher School Certificate and State Scholarship standards, respectively. There is much to be said for this extension of the examination coverage, but nothing for the abolition of special merit categories. The old certificate had three pass categories – 'pass' 'credit', and 'very good'; the higher certificate – 'pass', 'good', and 'distinction'. If a pupil has done very well in an examination, why should not he – and the world generally – be told?

The administrative actions considered in this article originated in reports of the Secondary School Examinations Council. This body, in the interests of greater freedom for schools, also put forward the proposal for the new General Certificate. From this year onwards, pupils who are weak in Latin or mathematics will no longer be debarred from obtaining a certificate showing their attainments in other subjects. In theory, this is a step in the right direction. But since a General Certificate can be given in one subject only – and this may be botany or machine drawing – the prospective employer will need to ask an applicant for work the subjects for which he has obtained the certificate. As things have turned out, this apparent freedom from the burden of group examinations is leading to confusion and difficulty in many schools. Previously, the professional bodies granted exemption from their preliminary examination on a more or less uniform basis, and the standard of attainment required for university entrants was related to this. This basis was, of course, the School Certificate. There is now much less uniformity in the exemption requirements of professional and technical bodies. The universities are insisting that their entrants shall possess certificates which cover five or six subjects of a somewhat diverse nature. This can well lead to a multiplicity of interests on the part of the pupils being prepared for the General Certificate, with the consequent staffing difficulties which this diversity of interests must bring. In such cases, the (expected) freedom will be largely illusory.

But school examinations are not the only topics which are causing misgivings on the part of those interested in education. The proposal to provide a number of 'comprehensive secondary' schools was welcomed by the Government in the recent debate on education. It is too early to pass judgment on this plan, but it is not unfair to mention that criticism has been expressed that such schools are likely to introduce too much uniformity into secondary education.

THE FINANCE ACT, 1951–II

SECTION 28 increases the effective rate of profits tax on distributed profits from 20 to 40 per cent as from January 1st, 1951. Where this date falls within an accounting period the period is split into separate chargeable accounting periods, except for the purposes referred to in paragraph 1 (4) of the Sixth Schedule.

The Sixth Schedule adapts the transitional provisions which applied when the last increase was made, i.e. by the Profits Tax Act, 1949.

Dividends in the transitional period

Paragraph 2 of the schedule is chiefly aimed at preventing avoidance of the new rate by the assignment of dividends to earlier periods.

Dividends for periods beginning before December 31st, 1950, are compared with a 'governing total', and where the dividends exceed that total the excess is in effect charged at the new rates in so far as it is covered by dividends declared after April 9th, 1951. This is done by providing that such excess dividends are distributions for the chargeable accounting period which began on January 1st last (or for the period in which the dividends were actually paid, if later) and not for any other period.

By way of illustration, let it be assumed that the 'governing total' for the accounting year 1950 was £20,000, and that an interim dividend of £12,500 had been declared in December of that year. If a final dividend of £10,000 were declared in May 1951, £2,500 (i.e. £12,500 + £10,000, less £20,000) would be treated as a distribution for the accounting year 1951.

The 'governing total' in relation to any accounting period ('Period II') is the total of the dividends assignable to the immediately preceding accounting period ('Period I'). If, however, Period I was longer or shorter than Period II, the dividends are reduced or increased proportionately. Similarly, if the amount of any class of paid-up share capital is greater in Period II than in Period I, ignoring bonus issues, the dividends in that class may be proportionately increased for the purposes of the governing total, provided that the person carrying on the trade so elects. (N.B. The Revenue have no corresponding right to decrease the dividends where there has been a repayment of capital.)

For the purposes of the foregoing provisions, the dividends assignable to an accounting period are those expressed to be paid in respect of it. This has the effect of excluding from Period I dividends paid during the period which are not expressly paid in respect of any period. However, this does not apply in respect of dividends after April 9th, 1951, which *are* included in the period in which they are paid, unless expressed to be paid in respect of another period.

Other transitional provisions

The first paragraph of the Sixth Schedule corresponds to Section 1 of the Profits Tax Act, 1949.

So far as distribution charges are concerned, the new rate only applies to the extent that non-distribution relief at the new rate has been obtained; it cannot therefore apply at all in the chargeable accounting period which began on January 1st, 1951. Sums exonerated from distribution charge at 40 per cent will be charged at 20 per cent up to the total of the non-distribution relief which has been received at that rate and which is not covered by an earlier distribution charge; the balance of any distribution charge would be at 15 per cent.

Paragraph 1 (2) deals with the repayment of loans. Under Section 36 (1) (*c*) of the Finance Act, 1947, a loan made to a member of a director-controlled company is treated as a distribution. By virtue of Section 36 (3), as amended by Section 70 of the Finance Act, 1948, the increased tax, if any, payable as a result may be recouped in whole or in part when the loan is repaid. This is effected not by the direct deduction of tax from tax, but indirectly, by reducing the net relevant distributions for the period when the repayment is made. The amount of this reduction must clearly be made dependent on the then current rate of tax, and paragraph 1 (2) of the Sixth Schedule therefore provides that the reduction is to be determined by reference to tax at 40 per cent in the case of repayments in chargeable accounting periods ending after December 31st, 1950.

Thus, if additional profits tax of £800 was paid by virtue of a loan prior to 1951 and one-half of that loan is repaid in the accounting year

1951, the net relevant distributions for 1951 must be decreased by £1,000, that is to say, by the amount 'corresponding' to the additional tax, namely, one-half of £800 grossed up at the new rate of 40 per cent.

A complication is occasioned when a distribution charge would be made except for these provisions because the rate of the charge depends on the rate or rates at which non-distribution relief has been given in the past. This point is dealt with in the proviso to paragraph 1 (2) of the schedule which provides that the relief is to be calculated at the rate at which the charge is made.

For instance, assume that the facts are the same as those in the last paragraph but one, except that in 1951 the profits are £19,000 and dividends of £20,000 are paid and that non-distribution relief in excess of £1,000 was received in 1950.

A distribution charge of £1,000 at 20 per cent would have been made if it were not for the partial repayment of the loan. The cancellation of this charge would absorb £200 of the £400 now recoupable. The remaining £200 is dealt with by being grossed up at 40 per cent, making £500, which, together with the £1,000 used to eliminate the distribution charge, would reduce the net relevant distributions to £18,500 as against profits of £19,000. The net effect may be demonstrated as follows:

Tax payable apart from relief on repayment of loan:	£
Fifty per cent on £19,000	9,500
Distribution charge of 20 per cent on £19,000 – £18,000	200
	£9,700
Tax actually payable:	£
Fifty per cent on £19,000	9,500
Less Non-distribution relief of 40 per cent on £19,000 – £18,500 ..	200
	£9,300

The miscellaneous transitional provisions which have so far been discussed are based on the general principle that where charges or reliefs in a past period effect the present, the position should not be affected one way or the other by reason only of the fact that the rates for *present* charges and reliefs have been altered. There are two more cases which are dealt with in a similar manner, namely, (*a*) where a trade or business carried on by one body corporate has been transferred to another as part of a scheme of amalgamation or reconstruction, and, as a result of an election by the parties concerned, distribution charges on one company are based on non-distribution relief already given to the other, and (*b*) where the giving of a notice under Section 22 of the Finance Act, 1937, in respect of a subsidiary company has had the same result. Here, too, the old rates are preserved for this limited purpose – see paragraph 1 (3) of the Sixth Schedule.

Public utilities

Section 19 (5) of the Finance Act, 1937, exempted certain categories of statutory undertaker from the charge to profits tax. Most of these public utility companies have now been nationalized and the section has recently applied chiefly to water companies.

Section 29 of the Finance Act, 1951, withdraws the exemption as from January 1st, 1951, and any accounting period or part thereof which falls after that date will be a chargeable accounting period. However, the rate of tax charged on such companies is to be that for undistributed profits, i.e. 10 per cent.

It is provided that losses incurred after January 1st, 1947, which could still have been carried forward if profits tax had applied to these companies as from that date, may be carried forward to the accounting periods subjected to the charge; the transitional provisions operative on January 1st, 1947, are applied for the purpose of excluding 1946 and earlier losses.

Dividends received from statutory undertakers which were exempt from profits tax, were taxed in the hands of the recipient except where the dividend was received by a body corporate having alone or in conjunction with other statutory undertakers a controlling interest in the paying company – see paragraph 7 (1) of the Fourth Schedule to the Finance Act, 1937, as amended by Section 32 of the Finance Act, 1947.

This exemption still stands. Other dividends from such statutory undertakers are taxed as before, but the profits tax chargeable on the recipient is reduced by 10 per cent either of the dividends or of the recipient's profits chargeable to profits tax for that period, whichever is the less.

(*To be continued.*)

SHIPPING AND TAXATION

THE General Council of British Shipping has submitted to the Royal Commission on the Taxation of Profits and Income a memorandum on the subject of depreciation allowances on ships. It seeks first to increase annual allowances by reference to current building costs, secondly to allow shipowners to anticipate future allowances, and thirdly to restrict balancing charges to exclude not only the proposed increase in allowances but also existing initial allowances. The memorandum contains illustrative examples and many interesting figures, other figures of a confidential nature being sent to the Commission separately.

The Council begins by quoting the following from the Commission's terms of reference:

> 'whether, for the purposes of the National Economy, the present system is the best way of raising the required revenue from the taxation of profits and income, due regard being paid to the points of view of the taxpayer and of the Exchequer.'

It very properly stresses the importance to these overcrowded islands of a prosperous shipping industry, both in the fierce competition of peacetime and in the even more hazardous conditions of war. The Council recalls previous Government subventions to British shipping and thereby puts a finger on one of the Commission's difficulties in interpreting its terms of reference.

However, the arguments put forward in the memorandum are said to apply in principle to all other industries using plant and machinery. The general criticisms of the present system are emphasized in shipping where depreciation represents so high a proportion of total costs, where building costs have risen so much, and where partial replacement is not feasible. The memorandum gives an example to show how in some cases these factors, combined with high taxation, make it impossible to maintain business capital out of profits. It does, however, say elsewhere that many tankers earn sufficient profits to enable their cost to be written off in seven years.

The Council's first proposal is that for any year in which the current replacement cost of a ship exceeds the price at which it was acquired, then any wear and tear granted for that year should be increased in the same proportion. For pre-war ships still in the same ownership the practical effect would be to treble the present allowance. In the unlikely event of a corresponding fall in building costs, it is not proposed to reduce the present allowance, because, so the argument seems to run, to reduce wear and tear allowance below normal would in effect tax the capital profit represented by the excess of the provision for replacement over the sum actually required. If costs continue to rise the main proposal would have one curious result. Since it imposes no maximum on the aggregate increased allowances but does not provide for their continuance after the date on which the historical cost would have been written off on the old basis, it will pay the shipowner to claim as low a rate of conventional allowance as possible, in order to delay the advent of this date.

Although capital allowances can be carried forward for an indefinite period, they cannot be carried back to earlier years. A ship may make high enough profits in its earlier years to absorb its whole cost but the allowances for some of it will normally extend into subsequent years when there may not be sufficient profits to absorb them. The Council would allow shipowners the option of anticipating future wear and tear allowances to avoid this danger. As a corollary, the excess of the wear and tear actually granted, over the amount which would be due on the basis of replacement cost, would be written off the historical cost, thus hastening the cessation of all allowances on the ship. This provision would, in the Council's view, encourage more speculative and experimental projects.

All the matters so far discussed are intimately bound up with the question of balancing charges. The Council questions the fairness of these, at any rate where a ship is disposed of for more than its scrap value. It supposes that the justification for them lies in the theory that since the purchaser of a second-hand ship claims allowances on the price he pays, that price must be taken into account against the seller, a theory which it regards as fallacious. The more orthodox theory is that a charge merely adjusts the allowances in the light of the actual loss. However, the charges do considerably increase the difficulties of maintaining capital.

MEASURING PRODUCTIVITY

MUCH is being written and spoken about productivity: most of it is exhortation to industry based on average figures derived from approximate calculations. A valuable attempt to separate the wood from the trees and to give greater precision to the search for more accurate accounting data on productivity is published today as a report of the Joint Committee of the Institute of Cost and Works Accountants and the Institution of Production Engineers.[1] This Joint Committee was formed at the end of 1948 and its earlier investigations were recorded in the *Interim Report on Productivity Measurement* published in 1949. A sub-committee was appointed to look further into two of the Committee's findings, namely, that there is a lack of knowledge of how far capital equipment is actually used in industry, and that there is a lack of statistical information at the supervisory level. This sub-committee's findings are the subject of the latest report.

Productivity is concerned with the effective use of resources in manufacture. It is therefore best expressed as a ratio. The report emphasizes, as the previous one did, that too much emphasis is given to productivity of labour.

Five types of productivity calculation, round which many variants have been woven as firms (quite rightly) have adapted statistical techniques to meet their own circumstances and requirements, have been identified.

The first of these is the simple output per man-hour. Care should be taken, says the report, to use this method only when the product used in the measurement is consistent and, it might have added, homogeneous. The second method is operative hours per unit of production. This is a more elegant formula than the first one but again it is best used when production is uniform and continuous, and it deals only with labour productivity. Other facets of the productivity picture should be obtained by changing the denominator to machine capacity, floor space and so on. The third formula is called added value per unit of labour cost. It is an attempt to bring other facets into the calculation as well as labour. Production is taken as sales value less cost of raw materials used. The ratio of the effective use of labour is:

$$\frac{\text{wages} + \text{overheads} + \text{profit}}{\text{wages}}$$

This formula has important limitations. By introducing cost, profit and price factors it lays itself open to outside influences. Thus varying raw material costs, heavy overheads and conventional profit mark-ups on cost can make a nonsense of the formula as a measure of productivity.

The report also deals with the man-power equivalent ratio. This is one of the more refined formulae. It is as follows (for key see footnote):[2]

$$\frac{V}{A+B+C+D}$$

The difficulty here is that the denominator will usually have to be the sum of approximate figures.

Finally there is a brief discussion on the comparison of actual time with standard times. Technically this is a sound method but can be used only by firms employing time-study or work measurement methods.

The Committee consider that firms should investigate the effective use of direct and indirect labour; effective use of machine capacity; effective purchasing of materials; effective use of materials, supplies and services; effective selling and distribution. These lend themselves to measurement and can be obtained from a good costing system. To quote the report: 'It is suggested therefore that accounting activities should first be directed to measuring each of these factors rather than to preparing average ratios of doubtful accuracy.' This is good doctrine, but there are occasions when approximate figures are better than no figures.

There follow two appendices, one dealing with the need to measure machine utilization and giving suggested headings for information, the other dealing with presentation of information at supervisory level and departmental operating statements as controls of production.

[1] Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2. 2s post free.

[2] V = volume of output. A = average numbers employed. B = man-power equivalent of capital equipment. C = man-power equivalent of services rendered. D = man-power equivalent of changes in raw material.

SPECIAL CONTRIBUTION AND TRUSTS

INCIDENCE AMONG INCOME BENEFICIARIES

by PETER WHITWORTH, Barrister-at-Law

ALTHOUGH special contribution has nearly all been paid over to the Revenue, and no doubt spent, its effects on the various victims remain. Where special contribution has been borne out of trust funds the income available for the beneficiaries will necessarily be less, to say nothing of the loss of capital which will eventually be suffered by the persons entitled in remainder. Many a beneficiary is finding that his income from a trust has been reduced, and not only because of his own special contribution but also because of the contribution levied on fellow beneficiaries. Indeed, his own total income may have been much too small to attract liability. He will naturally wish to satisfy himself that the trustees have a right to make a deduction from his share of trust income and that they compute it correctly.

Sections 56 and 57 of the Finance Act, 1948, which deal with the liability of trust funds to meet a beneficiary's contribution and the manner in which this burden is to be ultimately borne by the beneficiaries generally, are not models of clarity. They present trustees with a difficult and invidious task, in the performance of which, mistakes can easily be made. The Board of Inland Revenue has issued some excellent explanatory notes on special contribution, which deal, *inter alia*, with Sections 56 and 57, but they have no binding force and they confine themselves to the simplest kinds of case. Moreover, in their interpretation of Section 57 they appear to be erroneous in one respect. This is dealt with below.

Recovery from the Trustees

Section 56 (1) (8) of the Finance Act, 1948, provides as follows:

'56. – (1) Subject to the provisions of this Part of this Act, where investment income of an individual assessed to contribution (in this section referred to as "the contributor") arose under a trust, then if he has paid the contribution the contributor may recover under subsection (3) of this section such amount as bears to the contribution the same proportion as that investment income bears to his aggregate investment income, ascertained without any such deduction being made as is allowable under subsection (4) of Section fifty-one of this Act.

'(8) Where any property or fund is held as to different parts on different trusts, this section shall apply separately to each part.'

Ultimate Incidence among Beneficiaries

The question of ultimate incidence is dealt with by Section 57 (2) (3) as follows:

'(2) As between the persons interested (whether in income or capital) under a trust, the law relating to the ultimate incidence of estate duty shall apply to any amount falling to be paid under the last foregoing section in respect of income derived from property subject to the trust as if that amount were estate duty charged on that property on the cesser of a life interest therein, being an interest not subject to any interest in the property in fact existing under the trust, occurring at the end of the year 1947–48, and were charged as on property not passing to the executor as such:

'Provided that as between any annuity, other than one by reason of which the said amount or any part thereof fell to be paid, and other interests, the amount shall be borne by the other interests to the exoneration of the annuity.

'(3) Where the income derived from property referred to in the last foregoing subsection was a share only of income from the property, whether or not subject to other interests, that subsection shall apply as if the income derived as aforesaid had been derived from a corresponding share of the property.'

What is an 'Amount'

It seems reasonably clear that the words 'any amount falling to be paid under the last foregoing section' refer not to the total amount borne by the trust but to the total amount borne in respect of one individual beneficiary. Moreover, if two different parts of trust property are held upon different trusts, and one beneficiary received income under both sets of trusts, it follows from Section 56 (8) that the trust as a whole may have to bear two separate 'amounts' in his case.

The Estate Duty Rules as to Incidence

Section 57 (2) at once raises problems because the law as to the incidence of estate duty is itself in a confused state. It is not the purpose of this article to deal with questions of incidence among the persons entitled to capital when the trust fund is distributed, but to consider the rights of the persons entitled to income only. As such, they cannot suffer more than interest on the contri-

bution. Thus where A. is the life tenant of a settled fund, B. being entitled in remainder, the special contribution attributable to A.'s income reduces the fund and is therefore borne ultimately by B., but in the meantime A.'s income is reduced. B. is the chief sufferer, although he may be a much poorer man than A. If he was lucky enough to have sold his reversion first before special contribution was announced, the purchaser would be the loser, which in itself is a curious anomaly.

Trust Income Divided

However, it is where two or more persons are entitled to the income of the trust fund that the more startling anomalies arise. Assume that a fund is held in trust to pay an annuity of £2,000 to A., and the remainder of the income, which in fact amounts to £100, to B. On A.'s death the fund is to pass to C. A. is a wealthy man who recovers £200 special contribution from the trustees; B. has no other income. When A. dies C. will receive £200 less than he originally expected. In the meantime according to the Inland Revenue Explanatory Notes, paragraph 27, Example 16, the resultant loss of income will be borne by A. and B. in the proportions of 20 to 1. This is presumably based on the authority of *re Parker-Jervis* ([1898] 2 Ch. 643), but common sense would debit to A. the whole of the income loss.

Alternative Interpretation of Section 57 (2) (3)

In the writer's opinion, Section 57 (3) does permit this common-sense view. This subsection applies where the special contributor is entitled to a 'share only' of the trust income. In his case it throws the reduction in income on that share, so that no other person entitled to income suffers. Is A.'s annuity a 'share only' of the total income of £2,100? The Inland Revenue evidently think not; they confine the word to meaning an expressed fraction such as ½ or ⅓, or for that matter 20/21sts. Thus, although in the case of A., B. and C. above, the effect of the trust is to give to A. 20/21sts of the trust income, that income is not treated as a 'share only' of the £2,100.

The meaning of 'Share'

Etymologically, the word 'share' has nothing to do with fractions as such; it means something 'cut off', an expression which is as apt to describe an annuity as it is to describe a fractional share. It may be said against this argument that the proviso to Section 57 (2) exonerating all annuities other than the one by reason of which the special contribution was paid, necessarily implies that an annuity cannot be a 'share' within the meaning of Section 57 (3) since otherwise the proviso could never have any application. There are two answers to this. Firstly, the proviso may have been introduced *ex abondanti cautela*. Secondly, it may be intended to apply only to annuities which arise after April 5th, 1948. Suppose that X. is the tenant-for-life on that day, and that on his subsequent death an annuity is to arise in favour of Y., the balance of the income being paid to Z. In that case, the proviso would clearly operate to ensure that Y. received his annuity in full, while Z. suffered the income loss which resulted from X.'s special contribution.

Annuity and Share of Income paid to same Beneficiary

Where a beneficiary is entitled to a small annuity as well as to a fractional share in the residuary income, the Inland Revenue view of the meaning of the word 'share' causes an anomaly so much more striking as almost to amount to a *reductio ad absurdum*. Suppose that trust funds are held on April 5th, 1948, on trust to pay half the income to A. and half to B. In that case, each rightly suffers the loss of income due to his own special contribution, in accordance with Section 57 (3). Suppose now that the trusts are to pay to A. both an annuity and half of the residuary income, the other half of the residuary income going to B. On the Inland Revenue interpretation of Section 57 (3), it is only B. who has a 'share only' in the income of the trust funds. Thus he must still bear the whole of the income loss due to his own special contribution. On the other hand, A. no longer has a 'share *only*' and therefore a proportion of the income loss due to *his* special contribution is borne by B. This proportion will be practically one-half if A.'s annuity is minute. In short, the granting of a minute annuity to A. results in B.'s bearing half the income loss from the whole of A.'s special contribution.

The reaction of the layman to this situation would perhaps be to split up between the annuity and the half share the amount of A.'s special contribution borne by the trust, thus converting it into two 'amounts' for the purposes of Sections 56 and 57. Then, only the amount referable to the small annuity could be subject to apportionment against B. This, however, is clearly not contemplated by the sections. Indeed, the proviso to Section 57 (2) speaks of an annuity 'by reason of which the said amount *or any part thereof* fell to be paid'.

ACCOUNTING THROUGH THE AGES–II

THE STORY OF THE EXCHEQUER TALLIES

By R. ROBERT, A.C.I.S.

THE keeping of rudimentary accounts by the method of making notches in sticks is something that goes far back into the remoteness of prehistory. Palaeolithic man probably invented it, and for thousands of years afterwards notched sticks continued to play an important part as numeral records; until in fact they were superseded by the abacus.

The 'tallies', which are encountered quite frequently in one's random delvings into economic history, were nothing more or less than notched sticks, elaborated and refined, and pressed at a very early date into the service of the English kings. Exactly how early it is not possible to say, but a mere forty years after the Norman Conquest tallies appear as a firmly established part of the Exchequer organization.

The Fashioning of a Tally

What, to be more precise, was this superior type of notched stick? How was the tally made and how did it look? What purpose did it serve? Two of these questions are answered easily enough. An old book entitled *Antiquities and Curiosities of the Exchequer*, by Hubert Hall, declares that the Exchequer tally was a

> 'primitive form of chirograph, or indented writing, recommended for its superior durability, from being made of seasoned wood, instead of parchment or paper'.

As to its mode of manufacture, it was 'struck', to use the correct term, from willow, hazel or box in the form of a short, square truncheon, eight or nine inches in length, and tapering slightly from one end to the other. At the thicker end of the roughly-hewn stump a large notch would be cut, representing the principal sum involved. A gauged width of 1½ inches, it is learned, stood for £1,000, 1 inch for £100, and ⅜ inch for £10. On the opposite edge would be recorded the subsidiary amount; a 3/16th inch notch representing the sum of one shilling, and the smallest notch of all – one penny. Halfpennies were indicated by boring holes in the tally.

This, however, was not all. The work of the cutter having been completed to the satisfaction of all concerned, the Exchequer accountant or his assistant would write a superscription or narration (often in Latin) on the two remaining sides of the shaft, in which would be set out brief details of the transaction and the parties thereto.

The tally was then complete, apart from the important operation of splitting it along the grain of the wood so as to form two separate segments, identically notched. One half, the tally proper, would be given to the person making the payment, and constituted his receipt. The other, known as the counter-tally, was retained in the Exchequer archives, of which more anon. Later, when repayment was due, or when a final settlement was made, the two parts of the tally would be compared by being fitted together again. Trouble awaited the debtor who had tried to cheat by cutting a few extra notches in his own version of the account!

The Exchequer Organization

Before going on to deal with the development of the tally, a word or two may not be out of place on the subject of the ancient Exchequer itself. Established by Henry I, it was a branch of the king's court and was housed in a room at Westminster, to which the sheriffs and other revenue-collecting agents of the Crown came to give an account of their stewardship, and in which the complex problems of the royal finance were discussed by the council.

The Exchequer was the earliest form of counting-house, and it dealt not only with the royal revenues and disbursements, but with a variety of other matters including the regulation of trade, the supervision of weights and measures, and the standardization of the coinage. In fact it combined within itself the functions at present discharged by the Treasury and the Bank of England and by several other government departments besides.

Budget day was early in the spring, just as it is today. 'On the morrow of the close of Easter' the business of the Exchequer was in full operation.

Occupying the centre of the Exchequer room stood a large table, something like a modern billiard table, surrounded by a ledge, and covered by a dark russet cloth 'curiously patterned', i.e. marked out into squares with chalk lines. On this 'chequer' board was played a curious game of chess, too complicated to be explained in detail here, but which was in effect an annual

reckoning or a settlement of accounts as between the king and the sheriffs. These latter, as will have been gathered, were charged with the collection of manor rents and feudal dues of various kinds in the counties.

The table with its squares was in effect an abacus; a means for facilitating calculations in an age not as well versed in 'the three Rs' as the present. Counters and tallies were the pieces used in this curious game of 'exchequer' chess.

Modus Operandi of the Tallies

Henry I, son of William the Conqueror, had the reputation of being a man of marked ability, and that this was so is proved by his successful efforts to strengthen the authority of the Crown and of the State as against the feudal barons. It was during his reign that the administration of justice, a purely private matter up to his time, was taken over by the State, and also that trial by jury was first introduced.

The king was somewhat of a financial expert and his establishment of the Exchequer had, of course, only one main purpose: the setting up of machinery for the collection of much needed revenue. This constitutes his chief claim to our interest here, but it may be mentioned in passing that he could read and write and was the means of bringing a moderately literate bureaucracy into being.

These must be considered achievements, because the mass of the population and even the majority of the nobles were quite unlettered. Scholarship was confined almost exclusively to the monasteries, and to a very small stratum of the laity. The sheriffs themselves, men of birth and breeding, responsible for the collection of large sums of money in their regions, were sometimes unable to sign their names to a document or to reckon without the aid of their fingers.

This will explain a matter which may otherwise seem very puzzling to a modern mind: why was it necessary to have recourse to such rude and clumsy memoranda as the tallies? They were, in the words of the author of the *Antiquities and Curiosities*,

> '. . . invaluable auxiliaries of the hard-worked official staff of the Exchequer of Receipt. The high-born, or well-to-do, yet often illiterate sheriff of the Crown, who came before the barons with his profer during Easter term, had but to pay in his treasure, and take an acknowledgment in the shape of a small piece of wood inscribed with a figure writing, intelligible at a glance to the meanest comprehension. . . . Then, when he returned at Michaelmas to conclude his annual account, the indestructible voucher was readily forthcoming from his wallet, to be matched with the official counterpart.'

This very explicit passage makes it clear that however useless the tallies may have become later, in the early days after the Conquest they had a very definite utility value. The notched stick was undeniably something which could be understood, even by the totally uneducated; and no doubt the question of 'durability' had greater significance then. On such tallies as have survived from the very earliest times, Hall says:

> '. . . the marks made by the knife stand out as clean and true as on the day when they were cut by the chamberlain's serjeant.'

There seems to be a note of nostalgia in the comment, as if the writer regretted the advent of the age of parchment and paper.

Development of the Tallies

The notched sticks used by Henry I, and possibly long before his time, continued to be used in the manner described right down to the early nineteenth century; a fact which probably underlines the dogged resistance to change in the British character rather than the sturdy usefulness of the tallies, for after the arrival of Caxton and the printing press one would have expected to see them rapidly supplanted. Such, however, was not the case.

In tracing the development of the tallies one is obliged to refer to a well-known inability of certain monarchs, in Britain as elsewhere, to strike a favourable balance between income and expenditure. The kings of the past seem always to have been financially embarrassed and this led them to invent ingenious systems of anticipating revenues. And here the wooden tally, that 'invaluable auxiliary' was made to play a most lucrative role. It was promoted to the status of an instrument of transfer by means of which the monarch could assign a sum presently due from a debtor, to a creditor. The tally, essentially a mere receipt, was transformed into a *payment* or at any rate a pledge against the future. And the Exchequer, having once countenanced the procedure, had difficulty in preventing it from developing into a mere matter of routine.

One example may be quoted of the sort of thing that happened. Students of the early history of the Bank of England will remember that William III and the Whig Government, hard pressed for money with which to wage war against Louis XIV, came to the Governor and Company with a scheme which involved the 'ingrafting of the tallies' into the Bank stock.

A Parliamentary Inquiry

A Parliamentary inquiry had been made into the affairs of the Bank, from which there emerged in the year 1696 the following proposal: that the Bank be asked to raise the sum of £2,564,000 from the public against promises to pay in the form of 'tallies and orders on future revenue'. The directors were by no means enamoured of the scheme, thinking the amount too great, and the tallies (then at a considerable discount in the market) a security 'not likely to promote the Bank's credit'.

In the end patriotic motives compelled the Governor and the Company to make concessions, and an Act was eventually passed for the 'in-grafting' of the tallies. Sir John Clapham, in his monumental history, *The Bank of England*, goes into the matter in some detail. The crux of the operation was that for £65 of government tallies and bank notes (in the proportion of £4 of the former to £1 of the latter) subscribers were credited with £100 of Bank of England stock.

This was of course an important development in technique; and almost the only other one worthy of recording is the fact that the tallies, originally no more than 8 or 9 inches in length, had in some instances grown to the size of swords 'such as are used by the South Sea Islanders'. In fact one particularly formidable instrument, said to be still a prized possession of the Bank, reached the prodigious length of eight and a half feet!

The Last of the Tallies

It is easy to imagine the back-stage activities which went into the making, the checking and the custody of these notched stick accounts. One is not surprised to read that in the time of Pepys

> 'tally making had become a ritual, involving many officials and many fees'.

A fact which does cause astonishment is that another two hundred years were to pass before the ceremonious whittling of willow sticks was brought to an end.

The story is immortalized in the works of Charles Dickens,[1] where he tells of what he and many other people were thinking about the tallies in the early nineteenth century:

> 'Ages ago a savage mode of keeping accounts on notched sticks was introduced into the Court of Exchequer, and the accounts were kept, much as Robinson Crusoe kept his calendar on the desert island. . . . A multitude of accountants, book-keepers, and actuaries were born, and died. Still official routine inclined to these notched sticks, as if they were pillars of the constitution, and still the Exchequer accounts continued to be kept on certain splints of elm wood called tallies. In the reign of George III an inquiry was made by some revolutionary spirit, whether pens, ink and paper, slates and pencils, being in existence, this obstinate adherence to an obsolete custom ought to be continued, and whether a change ought not to be effected.
>
> 'All the red tape in the country grew redder at the bare mention of this bold and original conception, and it took till 1826 to get these sticks abolished.'

In point of fact the discontinuance of the wooden tallies had been decreed by an Act of 1782, but it did not become fully effective until the death of the last of the chamberlains.

The Drama of 1834

When that melancholy event had been mourned throughout officialdom, the tallies returned to Westminster in vast quantities. Special arrangements had to be made to accommodate them and a room, assumed to have been the former Star Chamber of ill repute, was presently packed full to the ceiling. There the tallies might have remained to the present day, food for the death-watch beetles and matter for the antiquarian, but for the fact that extra space was suddenly required.

An official gave an order for the room to be cleared, all unwitting of the catastrophe he was about to precipitate. The tallies it had been decided were to be destroyed, and so, in the chilly days of early autumn, 1834, they were thrown into the House of Commons heating stoves. This was in itself an eminently practical measure for disposing of what was after all only firewood and kindling. Unfortunately, the stoking seems to have been carried out with a positively diabolical zeal. The Houses of Parliament were not only thoroughly warmed; they were converted into a raging inferno of smoke and flame and were almost completely gutted. Only historic Westminster Hall survived the holocaust.

Epilogue

So, in a blaze of glory and defiance the tallies made their exit. And yet one wonders, was that great fire of 1834 really the end of these age-old accountancy relics? Have they not risen again, phoenix-like from the ashes, in this twentieth century? Transformed, apotheosized, sublimated, it is true, but still recognizably the Palaeolithic notched sticks, the tallies which Henry I and William III found so useful, granted a new lease of life and referred to as *punched cards.*

[1] *The Works of Charles Dickens*, Vol. 38 (Vol. 2, Letters and Speeches, p. 419), Chapman and Hall, 1908.

WEEKLY NOTES

Cost and Works Accountants' Summer School

The second residential summer school of the Institute of Cost and Works Accountants, which assembles at St Catherine's College, Cambridge, on Monday and continues throughout next week, will be the first of the several similar events to be held by leading bodies in the profession during the coming weeks.

The summer course of the Institute of Chartered Accountants in England and Wales at Oxford the following week and the Society's course at Cambridge later in the month, will be followed by the biennial autumnal conference of the Institute in October, at Torquay, and reports of each will appear in our columns.

On Tuesday and each successive morning next week, the summer school of the Cost and Works Accountants will be addressed by authoritative speakers on various aspects of the general theme of this year's course, which is factory management. (The subjects and names of speakers were detailed in our issue of July 14th last). Group discussions will follow, and in the evening reports will be made by group leaders, to which the speaker will reply, and there will finally be a summing up by the chairman.

We hope to include a survey of the papers presented, in our issue next week.

Report on Welding

'On careful consideration the team formed the impression that overall American productivity is greater than British.' So says the report on welding which has been published this week under the auspices of the Anglo-American Council on Productivity. The report goes on to say that the reason for this is not so much in the techniques employed as in the organization and layout of the shops and in the attitude of the men on the shop floor.

There appears to have been less difference found in costing methods and in the amount and quality of statistics kept, compared with British practice, than in other aspects of the welding business. Only one firm was found among those visited where arc-time records were used to measure productivity. Most firms visited had no more idea about arcing time factors than British firms. They also noticed that few firms visited were operating a piece-work or other incentive scheme. They did find however that two- and three-shift systems were often used to make better use of capital equipment than in this country and that labour was more flexible and concerned to assist actively in increasing output.

In many industries where welding practices were compared there was found to be very little difference between techniques used in America and over here. Substantial productivity differences were to be found nevertheless. For example, in structural steel work where techniques are similar on both sides of the Atlantic, according to the report, one American firm was found to use only fifteen man-hours of direct labour per ton of fabricated steelwork. This is much lower than is generally found in this country.

Another Productivity Team visits U.S.A.

A British fruit and vegetable utilization productivity team, which sailed for the United States under the auspices of the Anglo-American Council on Productivity and Economic Co-operation Administration, on August 29th, is being led by Mr R. P. Cooper, A.C.A.

Mr Cooper is chairman and managing director of George Mason & Co Ltd, sauce and pickle manufacturers, of London.

Australia's Decision on Wool

For some time now an air of uncertainty about Australia's final attitude on a price ceiling for wool has hung over the international wool market. The spring and summer auctions, already recording much lower prices for incoming clips, have been made all the more sensitive by strong American pressure for some form of international wool allocation involving fixed upper prices so that it could stockpile wool without having to pay somewhere near recent fantastic prices. The Australian Government has now announced that it will not take part in any international arrangement which could damage the present auction system. The news has been well received in Australia and in Bradford.

This statement of faith in the advantages of a free wool market comes at a time when the market is better placed to justify that faith than it has been for some time. This year there is every prospect that the world demand for wool is going to be rather less than the available supply. That does not necessarily mean that wool prices are in for a continued fall, for there is room for stockbuilding throughout the world if manufacturers can be persuaded that prices are not going to fall heavily and that customers can be persuaded to buy wool textiles round about the present level of prices.

Some downward adjustment in wool prices could take place without seriously worrying the wool exporters. But if present supply and demands continue they may find that they have accepted a stern but salutary discipline which will take some of the inflationary impetus out of their incomes (especially in Australia).

As Others See Us

The periodic bulletins put out by the Economic Commission for Europe offer a useful diagnosis from the outside, free on the whole from wishful thinking, on the economic state of member countries. In the latest one, there is a good deal to say about the great and growing pressure of inflation in this country.

There are also some interesting statistics about the comparative increase in industrial production in various European countries. There is nothing coming out of the comparison which should foster any spirit of self-congratulation in this country. For example, if the first four months of 1950 are taken as 100 the production performance of certain countries over the first four months of this year comes out as follows: France 114, Germany 135, Belgium 121 and Britain 105. The average for all member countries was 113.

Great emphasis is placed in the report on the need for Europe to raise more coal and become independent of imports from the United States. This warning is applicable to this country at least as much as to any other. Sir Hubert Houldsworth, the chairman of the National Coal Board produced some disquieting coal stock figures at Oxford this week. Gas works have 3·5 weeks' stocks at present against 3·8 this time last year. The railways are at 1·7 against 2·0. Merchants supplying house coal have two-thirds of last year's comparative figure, and anthracite and boiler fuel stocks are in even worse shape. Sir Geoffrey Vickers, another member of the Board, put in a plea to the miners in those areas where they have refused to accept foreign workers to reconsider their decision.

Sulphur Outlook

Prospects for a slightly larger sulphur quota for this country are rather better than they have been in the recent past. The Sulphur Committee of the International Materials Conference is expected to make its recommendations on the allocations for the last quarter of the year round about September 10th. Most of the export surplus of sulphur comes from the United States and the final figures are likely to be very much influenced by the final assessment in that country of what it can afford to export.

Moderate optimism is based on two facts. First, production in the United States is thought to be running slightly ahead of consumption, stocks being equal to about five or six months' requirements. Second, the recent discoveries of large deposits in the southern states of the Union may well have a useful psychological effect on American assessments although the value of these deposits is not as yet fully agreed among the experts.

Any improvement in supplies to this country will, of course, be only relative. An end of the shortage is not yet in sight.

Cross-Currents in Prices

Evidence continues to accumulate that world prices are moving downwards and that, at a seemly distance, British internal prices may do likewise. There are still plenty of influences at work however, particularly as regards the domestic prices structure (witness the rise in steel prices this month) which makes it much too early to say that the general trend is downwards.

So far as this country is concerned, the latest prices to be written down are September and October delivery prices for raw cotton, although it will not be until October that any important change takes place, when the Raw Cotton Commission cuts American-type cotton prices. For those who prefer to look at official statistics, rather than place too much credence on the movements of individual commodity prices, the Board of Trade's index of wholesale prices is now beginning to record what may prove to be significant changes.

Wholesale prices in July are now published in this official index and they are seen to have fallen 0·9 of a point compared with June. The size of the fall is perhaps trifling but it is worth recording that it is a fall and the first one since July 1949. This token decline is, however, the net result of a number of contrary movements. Certain key textiles pulled the index down, but food prices were higher and important industrial raw materials were often fractionally dearer. Among the metals, tin fell heavily but zinc and lead were higher. There are also signs that the lower level of world prices is beginning to have a slight effect on the terms of trade. In July import prices eased off by one point. This is a very small movement but like the change in the level of wholesale prices, it is a move in the right direction.

Better Railway Traffic Receipts

For the second four-week period in succession rail passenger receipts have shown an improvement on the corresponding period of 1950. In the period ended August 12th, there was an increase of 4·8 per cent on 1950. For the 32 weeks of this year so far total railway receipts are £222 million compared with £202 million for last year – an improvement of about £20 million.

These encouraging signs of resilience on the receipts side are welcome not least because the position on the labour side continues to be unsatisfactory. It is comforting to have some good news from an industry which is still some 30,000 short of an adequate labour force. Such a gap would stretch the railways' resources well nigh to breaking point if there were a severe winter which called for emergency movements of coal.

Still Fewer Cars

There will be fewer cars on the home market next year than this. The Ministry of Supply has announced that owing to the needs of defence and the continued need to increase exports there must be a cut in domestic deliveries.

This year the allocation is 80,000 plus half of any production over 460,000. This probably means that this year there will be about 100,000 cars coming into the domestic market. Next year the limit is 80,000.

If this policy is adhered to – and of course that depends to some extent on the capacity of export markets to take British cars and the programmed rate of production for rearmament – it means that even if raw material shortages are overcome the motoring public will not benefit.

FINANCE AND COMMERCE

Neither the breakdown of the Persian negotiations nor the failure of the Korean truce talks has had material effect on stock markets. Business has fallen away to merely routine proportions, and undoubtedly the overriding factor in the situation continues to be the dividend limitation proposals and the political uncertainties surrounding them.

Over-Depreciated

The directors of Cork Manufacturing Co Ltd, whose accounts to April 30th, 1951, we reprint this week, emphasize that no charge has been made for depreciation of land and buildings or plant and machinery in arriving at the net profit, after taxation, of £57,652. The reason for this was given in the previous report.

It was the policy for many years to depreciate fixed assets at rates 'which are now believed to be somewhat excessive'. The procedure has therefore been adopted of making an appropriation from profit which is credited to a plant replacement reserve. The amount so taken is £15,000 which, it is explained, is considerably in excess of the normal annual depreciation charge in respect of the freehold land and buildings and the plant and machinery.

This question of depreciation is considered each year and when the directors feel that the balance of the extra depreciation has been absorbed, they intend to revert to normal practice of making an annual depreciation charge.

The action taken is clear enough but there is no answer to such questions as what the excess depreciation amounts to, why it was not written out of the depreciation account in one go and what the fixed assets may be worth at present date.

More Capital Needed

The directors are now facing a need to raise further capital which, owing to profits tax, they propose should be in the form of debentures. Apparently there is a tendency for supplying countries, particularly Portugal, from which cork is obtained, to seek financial assistance from the company before date of shipment owing to the local inability to finance purchases in the forests.

Incidentally, Portuguese law prohibits the stripping of the bark of the cork oak tree at less than nine-year intervals. After removal of the virgin bark, the tree forms new cork at the rate of about

CORK MANUFACTURING COMPANY LIMITED

Consolidated Balance Sheet

Combining the Assets of Cork Manufacturing Company Limited and its Subsidiary Companies as at April 30th, 1951

April 30th, 1950 £	£		£	£
280,000		**Issued Share Capital** of Cork Manufacturing Co Ltd		323,333
		Reserves and Undivided Profits:		
		Capital Reserves:		
	14,807	Share Premium Account ..	14,807	
	88,804	Excess Profits Tax Post-war Refund Account	94,742	
	103,611		109,549	
	—	*Less* Amounts applied for Issue of 173,334 fully-paid 5s Ordinary Shares at par (Share Premium Account £14,807 and Excess Profits Tax Post-war Refund Account £28,526)	43,333	
103,611				66,216
		Revenue Reserves:		
	50,000	General Reserve	70,000	
	60,000	Contingencies Reserve	60,000	
	15,000	Plant Replacement Reserve ..	30,000	
	1,000	Deferred Repairs	1,000	
	41,500	Future Taxation – Income-tax, 1951–52 (eleven twelfths) and 1952–53	63,576	
	10,119	Income-tax on Initial Allowances	12,346	
	13,056	Undivided Profits	17,521	
190,675				254,443
574,286		**Total Capital and Reserves** ..		643,992
3,988		**Outside Shareholders' Interest** in Subsidiary Companies		12,195
		Current Liabilities and Dividends:		
	104,791	Trade Creditors and Accrued Charges	111,474	
	45,306	Current Taxation	47,724	
	11,412	Proposed Final Dividends (net) ..	13,737	
161,509				172,935
		Note. – There are outstanding Capital Commitments amounting to approximately £23,000 (*1950, £12,000*) for which no Provision has been made in these Accounts		
£739,783				£829,122

April 30th, 1950 £	£		Cost £	Depreciation and amounts written off £	Balance £
		Fixed Assets:			
	103,185	Freehold Land and Buildings	122,768	10,465	112,303
	95,059	Plant and Machinery	206,689	93,433	113,256
	11,710	Fixtures and Fittings	24,149	11,395	12,754
	4,425	Motor Vehicles ..	13,799	4,712	9,087
	214,379		367,405	120,005	247,400
	1	Goodwill (including premium paid on acquisition of a Subsidiary Company) ..	17,735	13,505	4,230
	1	Patents	20,200	20,199	1
214,381			£405,340	£153,709	251,631
		Current Assets:			
	274,572	Stock-in-Trade and Work in Progress at the lower of Cost or Market Value		326,649	
	165,020	Debtors and Payments in Advance, less Provision for Bad Debts ..		197,981	
	3,000	British Government Securities at Cost		3,000	
	82,810	Cash at Bankers and in Hand ..		49,861	
525,402					577,491
£739,783					£829,122

one-eighth of an inch per annum. The company gives these facts in an extremely interesting booklet on the origin and use of its products. Prime quality cork is reached with the third stripping and after a further three or four strips, quality declines.

The basis of cork's physical qualities is in its cellular structure, each cubic inch of good quality natural cork containing some 200 million minute cells. Each cell forms an air-tight compartment with completely impermeable walls.

Any Idea?

Would the directors of Sheepbridge Engineering Ltd by any chance have any idea what the company's unquoted investments might have been worth on balance sheet date March 31st, 1951? The investments, they point out, consist wholly of quoted and unquoted shares in colliery companies which will in due course be wound up. Substantial distributions of capital, it is added, have been received during the year from these sources. In the case of the unquoted shares, the directors are of the opinion that the value of the shares very greatly exceeds the present nominal book value of £1. If the unquoted position is anything like the quoted which in the books at £11,163 had a market value of £1,006,400, the hidden reserve must be substantial. 'Very greatly exceeds' is too indefinite.

CORK MANUFACTURING COMPANY LIMITED

(Incorporated the 11th day of December, 1924)

Registered Office: 53 New Broad Street, EC2

Balance Sheet, April 30th, 1951

April 30th, 1950 £ Issued	April 30th, 1950 £ Authorized		£ Authorized	£ Issued fully paid	£
		Share Capital:			
130,000	150,000	Ordinary Shares of 5s each	300,000	173,333	
150,000	150,000	6 per cent Cumulative Preference Shares of 5s each	150,000	150,000	
280,000	£300,000		£450,000		323,333
		Reserves and Undivided Profits:			
		Capital Reserves:			
	14,807	Share Premium Account ..		14,807	
	88,804	Excess Profits Tax Post-war Refund Account		94,742	
	103,611			109,549	
	—	*Less* Amounts applied for Issue of 173,334 Fully-paid 5s Ordinary Shares at Par (Share Premium Account £14,807 and Excess Profits Tax Post-war Refund Account £28,526)		43,333	
103,611					66,216
		Revenue Reserves:			
	50,000	General Reserve		70,000	
	60,000	Contingencies Reserve		60,000	
	15,000	Plant Replacement Reserve ..		30,000	
	1,000	Deferred Repairs		1,000	
	38,750	Future Taxation – Income Tax 1951–52 (eleven twelfths) and 1952–53		61,412	
	10,119	Income-tax on Initial allowances		12,346	
	13,005	Undivided Profits		14,678	
187,874					249,436
571,485		**Total Capital and Reserves** ..			638,985
		Current Liabilities and Provisions:			
	101,771	Trade Creditors and Accrued Charges		104,994	
	24,224	Current Taxation		46,912	
	11,412	Proposed Final Dividends (net) ..		13,737	
137,407					165,643
		Note. – There are outstanding Capital Commitments amounting to approximately £23,000 (*1950, £12,000*) for which no Provision has been made in these Accounts.			
£708,892					£804,628

April 30th, 1950 £	April 30th, 1950 £		£ Cost	£ Depreciation and amounts written off	£ Balance
		Fixed Assets:			
	103,185	Freehold Land and Buildings	121,185	9,922	111,263
	89,755	Plant and Machinery	194,722	91,338	103,384
	11,225	Fixtures and Fittings	22,826	11,236	11,590
	4,128	Motor Vehicles ..	11,001	4,001	7,000
	208,293		349,734	116,497	233,237
	1	Goodwill	13,506	13,505	1
	1	Patents	20,200	20,199	1
208,295			£383,440	£150,201	233,239
7,300		**Investments in Subsidiary Companies, at Cost**			20,600
		Current Assets:			
	44,598	Amounts due by Subsidiary Companies		84,844	
	267,019	Stock-in-Trade and Work in Progress at the lower of Cost or Market Value		316,588	
	105,043	Debtors and Payments in Advance less Provision for Bad Debts ..		109,122	
	3,000	British Government Securities, at Cost		3,000	
	73,637	Cash at Bankers and in Hand ..		37,235	
493,297					550,789
£708,892					£804,628

A. COOTE
I. V. COOTE } *Directors.*

REPORT OF THE AUDITORS TO THE MEMBERS OF CORK MANUFACTURING CO LTD

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the above Balance Sheet which is in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given us, the said Balance Sheet gives the information required by the Companies Act, 1948, in the manner so required and gives a true and fair view of the state of the Company's affairs as at April 30th, 1951.

We have also examined the annexed Consolidated Balance Sheet and Consolidated Profit and Loss Account of the Company and its Subsidiaries dealt with thereby with the audited Accounts of those Companies, one of which has not been audited by us. Subject to the foregoing, in our opinion, such Consolidated Balance Sheet and Consolidated Profit and Loss Account have been properly prepared in accordance with the provisions of the Companies Act, 1948, so as to give a true and fair view respectively of the state of affairs and of the profit of the Cork Manufacturing Co Ltd and its Subsidiaries dealt with thereby, so far as concerns members of Cork Manufacturing Co Ltd.

53 New Broad Street, London, EC2.
July 18th, 1951.

FARROW, BERSEY, GAIN, VINCENT & CO.
Chartered Accountants. } *Auditors.*

CORK MANUFACTURING COMPANY LIMITED
Consolidated Profit and Loss Account for the year ended April 30th, 1951

			April 30th, 1950	
	£	£	£	£
Trading Profits for the Year		153,239		*116,345*
Before charging the following:				
Depreciation	3,337		*2,640*	
Directors' Emoluments:				
Fees £1,100			*1,100*	
Remuneration as Executive Directors 21,487			*20,410*	
	22,587			
Reserve for Income tax on Initial Allowances	2,227		*3,852*	
		28,151		*28,002*
		125,088		*88,343*
Add Interest on Government Securities ..		75		*75*
		125,163		*88,418*
Deduct Profits retained in the Accounts of Subsidiary Companies (including £1,744 attributable to outside Shareholders) ..		5,511		*(Add) 254*
		119,652		*88,672*
Deduct Taxation based on Profits of the Year:				
Income tax	40,000		*25,495*	
Profits Tax	22,000		*14,425*	
		62,000		*39,920*
The Profits of Cork Manufacturing Co Ltd amount to		57,652		*48,752*
Add Balance brought forward from the previous year		13,005		*11,716*
Balance available for Appropriation		70,657		*60,468*
Dealt with as follows:				
General Reserve	20,000		*15,000*	
Plant Replacement Reserve	15,000		*15,000*	
Dividends, less Income tax:				
Cumulative Preference Shares at the rate of 6 per cent for the year to April 30th, 1951	4,837		*4,950*	
Ordinary Shares:				
Interim of 5 per cent (actual) paid on January 29th, 1951	4,767		*3,575*	
Proposed Final of 12½ per cent (actual) making 17½ for the year	11,375		*8,938*	
		55,979		*47,463*
Balance carried to Balance Sheet		£14,678		*£13,005*

Note. – In accordance with South African Law the Accounts of Cork Manufacturing Co (South Africa) Ltd are made up annually to June 30th, and the above Consolidated Profit and Loss Account includes the Trading Results for the year ended June 30th, 1950. The Trading Results of another subsidiary have been included from the date of acquisition on January 1st, 1951, to April 30th, 1951.

Summary Example

The accounts of Jeremiah Ambler & Sons Ltd this year contain an interesting example of earnings and assets summary. This in the original covers seven years but for space reasons has been limited to two years, in the reproduction. In addition to profits, taxation, etc., the summary shows that 72 per cent was earned on the ordinary capital and 14 per cent paid, and this relation of dividend to earnings is one of the essentials.

JEREMIAH AMBLER GROUP
Statement showing comparison of Profits, Capital and Taxation

	Year ended Dec. 31st, 1949	**Year ended Dec. 31st, 1950**
	£	£
Profits before taxation, debenture interest and transfers to building replacement reserve	220,118	**222,244**
National taxation	120,555	**116,504**
Issued capital—		
Preference	300,000	**300,000**
Ordinary	275,272	**282,516**
4½ per cent Debenture stock	150,000	**300,000**
Cost of dividends on ordinary stock (after taxation)	21,196	**21,189**
Cost of dividends on preference shares (after taxation)	9,075	**9,075**
Cost of interest on 4½ per cent debentures (after taxation)	2,250	**9,563**
Dividend rate (gross) on ordinary stock ..	14%	**14%**
Dividend rate (gross) on estimated capital employed (*less* preference share capital and debentures)	1¾%	**1½%**
Earnings percentage on ordinary stock before taxation and after all prior charges ..	73%	**72%**
Group shareholders funds attributable to ordinary stockholders	£606,270	**£703,757**
Equalling asset value per stock unit of 5*s* at balance sheet values	11/-	**12/5**
Income per 5*s* unit of ordinary stock (before taxation and after all prior charges) ..	3/9	**3/7**
	£	**£**
Current assets, less current liabilities ..	756,846	**968,908**
Balance of undistributed profits and free reserves	231,489	**325,273**

Money Market

Treasury bill applications totalled £318,685,000 and the allotment basis was 77 per cent with the average rate 10*s* 3·36*d* per cent. This week's offer is £250 million. There is no Treasury deposit receipt call.

REVIEWS

SHORTER NOTICES

OFFICE SYSTEMS. (The Office Management Association, London. Volume I. 7*s* 6*d* net.) Four papers, given at various one-day conferences of the Association, and entitled 'The application of planning to sales ledger systems', 'Bought ledger systems', 'Stores control procedures', and 'Wages procedures', have been brought together to form the four informative chapters of this slim volume. An office manager seeking to reorganize his systems would, without doubt, be rewarded by a study of these pages.

REGISTER OF SURVEYORS, LAND AGENTS, AUCTIONEERS AND ESTATE AGENTS, 1951. (Thomas Skinner & Co (Publishers) Ltd, London. £2 post free.) The one thousand and one pages of the Register – publication of which was interrupted by the war – include a combined list of the 20,000 members of The Royal Institution of Chartered Surveyors, The Land Agents' Society, The Chartered Auctioneers and Estate Agents' Institute and The Incorporated Society of Auctioneers and Landed Property Agents. Other features of this authoritative volume are the historical details of the formation and development of the four institutions; a broad selection of official and statistical information important to the professions and the layman; and a thumb-indexed 'town register', comprising a comprehensive topographical directory of the names of firms whose partners are members of these professional bodies.

BUILDING SOCIETY WORK EXPLAINED, by Herbert Ashworth, with Scottish Supplement by Robert Stoddart. (Franey & Co Ltd, London, 2*s* 6*d* net.) This small paper-backed publication is described as an introductory booklet explaining what building societies are, how they are constituted, and the characteristic features of their everyday work. It was originally conceived as a primary text-book for new employees, and while being admirably suited to this purpose it will also be useful to the layman who is interested in the subject.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Directors' Emoluments

SIR, – We should be glad to hear the views of your readers on the following:

X is the managing director of A Ltd, and is also director of sundry other companies with which A Ltd is in no way connected. X receives a fixed rate of commission from A Ltd on all machinery and parts of machinery bought for A Ltd by him. It has been suggested that this commission could be regarded as an emolument received from the company, but X maintains that he receives these commissions as an outside person who buys and sells machinery, and that his commissions do not cover his costs. Similar arrangements may exist with some of his other companies.

It appears to us that there are grounds for arguing that X is carrying on an independent trade, and there would be evidence to support this view if we could receive his assurance that account is taken of this commission for tax purposes under Schedule D. We have been given to understand that no such account is taken as there is no profit. In these circumstances we feel that there is a real doubt as to whether the commissions should be classed as an emolument for the purposes of Section 196 of the Companies Act.

Yours faithfully,

DORSET.

'Training for Accountancy'

SIR, – Sir Harold Howitt's Cantor lecture published in your issue of August 11th, will have been read with the greatest interest and a very large measure of agreement by accountants whether in public practice or employed in industry. As one of the latter, may I be permitted to express some regret that in the latter part of his lecture Sir Harold appears to restrict professional attributes to those accountants in public practice. Surely the admirable list of eight qualifications which he suggests appropriate to the case of public accountants is equally appropriate to those of us who, after a period of practical experience under the guidance of a qualified practitioner in public accountancy, prefer to use our knowledge and experience in an industrial appointment. A doctor, even before the days of the National Health Service, was recognized as a professional man governed by a code of ethics whether he was in public practice or employed full-time at a salary by a hospital or similar institution. It is, surely, in the interests of our profession as a whole that those of us employed in industry not only feel ourselves to be governed by professional considerations, but also that our employers treat us similarly.

May I suggest that the attainment of this end will be helped if on all occasions we use the definitions 'accountants in public practice' and 'accountants engaged in industry', etc., instead of the loose and I maintain, inaccurate colloquialism 'the profession' or 'industry'.

Yours faithfully,

P. D. IRONS, B.COM., A.C.A., F.C.W.A.

Cowes, I.W.

Orthodox Profits

SIR, – I have a suspicion that Mr Briscoe is not the fundamentalist he would have us believe, and in support of this may I quote and criticize just one assertion he makes in his letter published in your issue dated August 4th, 1951: 'there is a world of goods, and a world of money, and the two must not be mixed'.

Might I suggest to Mr Briscoe that he thinks back to the days when some remote ancestor of his went out into the forest to kill a bear to produce a winter coat for his mate. Even that simple act of domestic economy, into which no question of money enters, cannot be confined solely to a world of human effort and natural products (labour and materials). To cause the effort to produce that coat there had to be first the *idea* that his mate required such a garment, which seems to indicate a 'world of intellect'; and in so far as he desired to increase his mate's happiness thereby, the *spiritual* world also seems to be involved. Each of these worlds has contributed to the production of that coat, but we cannot confine our measurement of the profit derived therefrom, as expressed by the benefit derived from the wearing of it (which is the true profit), to exclusive terms of materials, labour, intellect or spirit. It is a synthesis of all four. Mr Briscoe perhaps would argue that there cannot truly be said to be a profit, as there is no money involved.

Today, some two thousand million individuals are involved in similar transactions, as producers, distributors, or consumers; and to facilitate the necessary interchange of contributions from each of the four worlds, money has been invented and is accepted as the orthodox means of exchange and measurement of value. It is, perhaps, from this that Mr Briscoe argues that, as money is the orthodox measurement of economic values, so it must be the orthodox method of measuring profit; with which I would agree. Mr Briscoe, however, seems to extend this conclusion to mean that orthodox profit must be the difference between today's realized sale price and the historical cost as measured in terms of money at the date of purchase or manufacture. In other words, under inflationary conditions, by the mere fact of buying early and selling late (a practice which is inflationary in itself) we 'earn' more profit. I suggest such an interpretation of orthodox profits as represent-

ing true profits, arises from the fallacious assertion that the world of money must not be mixed with the world of goods, when in fact profits derive from economic transactions – each dependent in some degree – on contributions from each of, at least, four interdependent worlds.

Yours faithfully,

Kensington, W14. Wm. E. SPRUCE.

The Qualified Accountant in Industry

SIR, – May I draw attention to two points of interest in connexion with the correspondence under this heading in recent issues.

One is the tendency to presume an artificial line between audit practice and industrial accountancy, so assuming that the auditor has no contribution at all to make to the speedy and efficient preparation of accounts and information for management. In actual practice the industrial accountant does often benefit by suggestions from the wide range of experience of the auditor. The line is not nearly so clear cut as the correspondence would indicate.

The other is the necessity, whatever form of post-qualification course is visualized as training for industrial accountancy, to stress the tremendous change in outlook which must take place in the accountant, trained solely within the profession, when taking up an industrial appointment.

Perhaps the greatest difficulty is to acquire a sense of urgency; to realize that his work is now with immediate problems and those to come, rather than the preparation of history. Moreover, he will have to face questions peculiar to the concern which may throw him entirely on his own resources – no text-books, no principals, no accumulated body of recognized practice, no colleagues dealing with similar matters to consult for ideas.

Further, he will probably find himself expected to co-operate with, and even weld into a team, folk of very dissimilar calibre with whom he would formerly have had little in common. These are matters very difficult to cover in technical training.

However, that the need for ever-wider technical training is being generally recognized is instanced by the recent institution by the Chartered Institute of Secretaries of post-qualification diplomas in management and accountancy.

Yours faithfully,

K. BLUNDELL, A.C.I.S., A.A.C.C.A.

Birmingham.

SIR, – You have already been over-generous to me with your valuable space – but may I beg your further tolerance to say that I could not agree more with the letter of my namesake, Mr J. Rose, as to the immense importance of practical experience in industrial accountancy.

His estimate of 3–5 years' training in industry is, in my opinion, a very fair one. But as far as his swimming analogy goes, surely he would agree that the man who has been properly trained from the start is much more likely to win races in the future than the man who was pushed into the deep end and left to develop his own style. In work or in play, early training in the right methods is always worth it.

Yours faithfully,

London, NW8. T. G. ROSE.

NOTES AND NOTICES

Personal

MESSRS RAYBOULD, HINKS & Co, Chartered Accountants, of Smethwick and Birmingham, announce that on July 31st they removed to more commodious offices on the first floor of the West Bromwich Building Society premises at Cape Hill. The new address is 31 Cape Hill, Smethwick, 40. Telephone: Smethwick 0435.

MESSRS BOLTON, BULLIVANT & Co, Chartered Accountants, of 6 Friar Lane, Leicester, announce with regret the death, on August 26th, of their partner Mr A. W. POOLEY, F.C.A. The practice will be continued by the remaining partners, Mr J. B. BULLIVANT, F.C.A., and Mr R. D. LEA, F.C.A.

The Sixth International Congress on Accounting, 1952

MAJOR-GENERAL E. C. HAYES, C.B.

The recent sudden death of Major-General E. C. Hayes, C.B., at the age of 55, came as a great shock to all who knew him. General Hayes, who was placed on the retired list in 1947, was in December 1950 appointed the Chief Executive Officer of The Sixth International Congress on Accounting, 1952.

Major-General Hayes served in the First World War and was mentioned in dispatches. A graduate of the Staff College, Camberley, he held various commands in the Second World War, including that of the 169th Infantry Brigade, the Third Division in England, and the Nigeria Area, West Africa, afterwards being appointed G.O.C. British Troops in China and head of the British Military Mission to China. He had recently been appointed Colonel of the Royal Norfolk Regiment.

Overseas Economic Surveys

ECONOMIC AND COMMERCIAL CONDITIONS IN PAKISTAN

A survey of economic and commercial conditions in Pakistan has just been published by His Majesty's Stationery Office, price 5*s* net. This is the latest volume in the series of overseas economic surveys issued by the Commercial Relations and Exports Department of the Board of Trade.

Courses of Lectures on Taxation

It is proposed to hold, at Kingsway Hall, Kingsway, London, WC2, two courses, each of seven lectures, on taxation law and practice as detailed below. All lectures will commence at 6.15 p.m. and will last for 1½ hours, including time for questions. The lectures will take place on Wednesdays and Thursdays, commencing September 26th and 27th.

Wednesdays. – Commencing September 26th, 1951, for advanced students and practitioners.

Lecturers: Mr Percy F. Hughes, A.S.A.A., F.C.I.S., Assistant Editor of *Taxation*, and Mr T. L. Graham, A.S.A.A., of *Taxation.*

Subjects: (1) 'Profits tax', by Mr Hughes; (2) 'Property assessments and claims', by Mr Graham; (3) 'The Finance Act, 1951', by Mr Hughes; (4) 'Taxation of trading profits', by Mr Hughes; (5) 'Capital allowances', by Mr Graham; (6) 'Conduct of appeals', by Mr Hughes; (7) 'Double taxation', by Mr Hughes.

To practitioners the lectures should present an opportunity of revising and bringing up to date their knowledge of the subject.

Thursdays. – Commencing September 27th, 1951: Introductory and for Intermediate students.

Lecturers: Mr T. L. Graham, A.S.A.A., and Mr J. M. Cooper, A.A.C.C.A., A.C.I.S., of *Taxation.*

Subjects: (1) (*a*) 'Income-tax reliefs and allowances', (*b*) 'Schedule A', by Mr Graham; (2) 'Schedule E', by Mr Cooper; (3) 'Schedule D, Cases I and II', by Mr Graham; (4) 'Trading losses and partnership assessments', by Mr Graham; (5) 'Schedule D, Cases IV and V', by Mr Cooper; (6) 'Profits tax, I', by Mr Graham; (7) 'Profits tax, II', by Mr Graham.

These lectures should be found of value to students preparing for the various professional examinations, supplementing their studies and presenting the practical aspect of the subject.

Fee for each course £1 1s; admission cards for the lectures can be obtained from Mr Ernest T. Green, F.C.C.S., Kingsway Hall, Kingsway, WC2. Telephone Holborn 8860. Light refreshments at reasonable prices can be obtained on the premises between 5 p.m. and 6 p.m. before each lecture.

Tithe Redemption Commission

The attention of landowners, estate agents, and others concerned with dealings in land is called to Section 10 (4) of the Tithe Act, 1951, which provides for the transfer, on September 1st, 1951, to the Tithe Redemption Commission of certain functions hitherto exercised by the Minister of Agriculture and Fisheries.

The functions so transferred relate to the apportionment and redemption of (*a*) annuities charged on land under the Tithe Acts, 1918 and 1925, and (*b*) of annuities in lieu of corn rents, rentcharges, or money payments redeemed under the Tithe Acts, 1836 to 1936. The procedure is governed by Section 1 of the Tithe Annuities Apportionment Act, 1921, and Sections 191 and 192 of the Law of Property Act, 1925, and by two Statutory Instruments prescribed by the Commission.[1]

FEES

The Tithe Redemption Commission also announce that from September 1st, 1951, the scale of fees will be modified.

No fees will be payable for the inspection of tithe apportionments, and all public documents in the custody of the Commission relating to tithe rentcharge, tithe redemption annuities and chancel repairs may be inspected free of charge between the hours of 10 a.m. and 4 p.m. (9.30 a.m. and 11.30 a.m. on Saturdays).

The fees payable for the supply of copies of, and extracts from, the several classes of documents issued under the Tithe Acts have been revised, but (with certain minor variations) they are the same as have hitherto been charged.

The fees for the apportionment and redemption of corn rent annuities, responsibility for which has been transferred to the Commission, are (with certain minor variations) identical with those hitherto charged by the Ministry of Agriculture and Fisheries. Full details of the fees payable will be found in the Tithe Fees Rules, 1951 (Statutory Instrument 1534).

The address of the Tithe Redemption Commission is 33–37 Finsbury Square, London, EC2.

[1] S.I. 1951 No. 1535, 4*d* net and S.I. 1951 No. 1534, 3*d* net. H.M.S.O.

The Birmingham Chartered Accountant Students' Society

The membership of the Birmingham Chartered Accountant Students' Society continues to rise steadily and the report of the Committee for the year ended April 30th, 1951, presented at the Society's sixty-eighth annual general meeting, now gives the total as 950 compared with 844 in the previous year and 728 in 1949. In addition to this pleasing expansion the committee reported an active year, that had included debates, weekly lectures during the autumn and spring sessions, visits to several well-known factories and firms and a week-end residential course at Ashorne Hill near Leamington Spa. The Saturday morning lecture scheme continued during the year

JOHN FOORD & COMPANY
56 VICTORIA STREET, LONDON, S.W.1 Telephone: Victoria 2002 (3 lines)
VALUERS AND ASSESSORS
OF WORKS, FACTORIES, Etc.

and was extended so that first- and second-year Intermediate students should each have a separate course.

The second annual report of the Coventry area branch of the Society which is included, records a successful year of progress. Membership of the branch rose during the year to thirty-six.

The following officers and committee have been elected for the year 1951–52:

President: Mr W. L. Barrows, J.P., F.C.A.
Vice-President: Mr B. C. Kirk, F.C.A.
Hon. Secretary: Mr J. M. Rae.
Hon. Assistant Secretary: Mr H. B. Huntington-Whiteley.
Hon. Treasurer: Mr G. N. Salisbury.
Hon. Librarian: Mr W. T. Organ.
Hon. Auditor: Mr C. W. Massey, A.C.A.
The Committee: Mr W. R. Doherty, T.D., A.C.A. (chairman), Miss M. O. Bent, A.C.A., Messrs M. A. Charlton, D. J. Collis, J. P. Gillies, A.C.A., P. R. Harlow, D. J. Jeffrey, W. P. Kember, J. M. Robotham, R. B. C. Waring.

Recent Publications

TRUST LAW AND ACCOUNTS, fourth edition, by John B. Wardhaugh, C.A., xxiii + 226 + 130 pp., 27s 6d net. W. Green & Son Ltd, Edinburgh.

KONSTAM'S INCOME TAX, Eleventh Edition. Release 6, Stevens & Sons Ltd, London.

THE TRUSTEES' HANDBOOK, by J. A. R. Finlay, M.A., Barrister-at-Law. ix + 173 pp. 7 × 4½. 10s 6d net. Sweet & Maxwell Ltd, London.

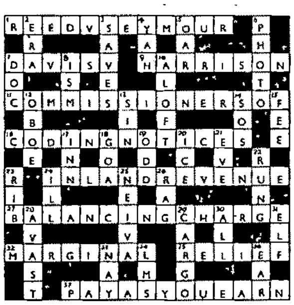
Our Contemporaries

THE JOURNAL OF ACCOUNTANCY. (New York.) (August.) 'What Concept of Depreciation for Fixed Assets is Most Useful Today?' by Charles W. Smith, C.P.A.

THE CHARTERED ACCOUNTANT IN AUSTRALIA. (Sydney.) (June.) 'A Professional Stocktaking', by K. M. Stonier, F.C.A.(AUST.).

THE ACCOUNTANTS' JOURNAL. (Wellington.) (June.)

'Holiday Crossword – II'



Solution to 'Holiday Crossword – II' by J. Rose, A.C.A., which appeared in last week's issue.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 2nd, 1876

Extract from leading article

We are sorry to have to record the death of the *Hour* newspaper. Despite the many mistakes it made in the exercise of its somewhat heedless pugnacity with regard to promoters and speculators, we yet are inclined to believe that it was doing a good work, though, perhaps not in the most desirable way. We believe Mr MacDougall to have been animated by a much higher spirit than that of a mere personal antagonism to some one or more prominent promoters of public companies. Few persons, we imagine, would be inclined to call in question the fact that there is enough of roguery in high places within the city of London, to keep employed the iconoclastic elements in fifty writers such as the late financial editor of our deceased contemporary. To those who are able to catch occasional glimpses behind the scenes, the amount of cool swindling which may be discerned proceeding under the eye and with the connivance of men whose names stand boldly out on the civic scroll, is almost enough to destroy faith in any human probity whatever. It is all very well to single out one man, and make him the scapegoat, who must carry, not only his own sins, but the sins of his fraternity, out into the wilderness of unpopularity and dislike. Possibly such a punishment may have been deserved in some particular instances; but even were it so, it would afford no proof that there were not very many others who, morally speaking, equally deserve to bear the same punishment.

'Training for Accountancy': a Correction

Owing to an error in transcribing, the period 'eighty years' mentioned in Sir Harold Howitt's Cantor Lecture in our issue of August 11th (page 127, line 19), should have read 'thirty years'.

ANNOTATED TAX CASES

Edited by ROY E. BORNEMAN *of Gray's Inn, Barrister-at-Law*

Published at frequent intervals. Reports of Income Tax, Sur-Tax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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SAVINGS DIFFICULTIES

IT cannot be too strongly emphasized that inflation is one of the greatest – if not the greatest – of the economic dangers facing this country at the moment. To keep inflation in check, available purchasing power in the hands of the public must not be allowed greatly to exceed the value of goods available for purchase at current prices. If the supply of such goods declines and there is no corresponding fall in the purchasing power available, then the pressure of demand will steadily force up prices and inflationary conditions will continue to develop.

There has been a round of wage and salary increases in the recent past and this movement has certainly not spent itself, despite the hoped for deterrent effect of dividend limitation. More overtime and piecework are likely to be worked as the defence programme progresses; more married women are expected to enter industry and old people will be persuaded to stay on after reaching retiring age. On the other hand, fewer consumer goods may find their way to the home market as the year progresses. Difficulties in the supply of non-ferrous metals will reduce the production of many household goods. Exports generally will need to be maintained and hence the home market will suffer, and a proportion of the firms making goods for civilian purchase are turning to defence orders. The cumulative effect of all this must be to bring down the volume of goods available for purchase. This may not be immediately apparent, but shortages may well be appearing by the end of the year.

These inevitable trends are certainly posing difficult problems for the Government. Increasing supplies and a moderately determined attack on inflation had, by the middle of 1950, brought inflationary pressure under control. There is evidence that this pressure is now increasing again. An effort will have to be made to contain it. A number of ways in which this may be done come readily to mind; no doubt the Government will make use of all these methods. In the first place, increased production and greater productivity can be a powerful factor in combating inflationary pressure. But on account of our preoccupation with defence matters production of goods for the ordinary consumer can hardly be increased – as we have seen, it is almost certain to decline. Physical controls have their part to play. Prices of important consumer goods may be fixed and attempts made to keep within bounds wage and salary increases. Experience of the post-war era has shown, however, that by themselves such controls merely distort the economy. Purchasing power dammed up in one place bursts out in another, and probably less desirable, channel. Physical controls of this type succeed best when the general atmosphere is disinflationary, or at least not notably

inflationary. Excess purchasing power may be mopped up by taxation which may be direct or levied on goods. Excise duties and purchase tax provide examples of the latter kind. Genuine savings act in a similar way to taxation but the ownership of purchasing power thus withdrawn remains with the holder. The more people save, however, the less will be the need to increase taxation.

Unfortunately, the trend in small savings has not been really favourable for some time now and the outlook, though brighter, is still uncertain. If small savings are measured by purchases of savings certificates and bonds, and the change in deposits at Government-controlled institutions such as the post office and trustee savings banks, they have been negative for many months, apart from a short period in the early part of 1951. In the financial year 1947–48 these savings amounted to £190 million. In the next year they had fallen to £27 million – to be followed in the succeeding year by a net encashment of £71 million. The encashment for the last financial year amounted to £90 million, and this trend continues. There is, of course, a great deal of saving taking place but it is mainly by firms who are setting aside vast sums out of declared profit as well as providing for depreciation.

The reasons for this decline in small savings are fairly obvious. In the first place, the volume of goods coming on to the market has been increasing and, in a sense, the decline in savings is a measure of the earlier decline in inflationary pressure. Prices, too, have been rising and the margin available for savings has consequently declined. Bearing in mind the experience of the early war years, people will be tempted to buy all they can now before shortages remove goods from the market altogether. Yet it is in the country's interest that savings should increase and buying sprees should be discouraged. Here the immediate interest of the individual runs counter to the general interest of the community. Again, the thoughtful citizen will ask, 'Why save if the value of money will continue to decline?' More goods in the home now must seem greatly to be preferred to a quantity of depreciated currency a few years hence when only small amounts of inferior goods are available for purchase anyway.

But if there is no increase in the level of savings, taxation must be increased instead. The Government cannot honestly ask people to save if the patriotic ones who respond are thereby penalized in relation to those who spend the whole of their incomes. Three steps can, however, be taken to minimize this injustice. In the first place higher interest rates are needed on small savings. The last increases announced in rates payable on national savings certificates and defence bonds go some way towards meeting this need; rates on Ninth Issue certificates are £3 0*s* 11*d* per cent compound interest compared with £2 13*s* 2*d* per cent allowed on the 10*s* issue. Rates on bonds have moved up from 2½ to 3 per cent.

Incidentally, a general rise in interest rates would materially help to ease the growing inflationary pressure. A further powerful incentive to increased savings would be a serious attempt to halt the rise in prices. Not only should such an attempt be made, but it should be clearly manifest to all that this was being done – and with some prospect of success. Some recent price increases could not have been prevented, but this does not by any means apply to all. And finally, if it is considered that rationing schemes for articles other than foodstuffs will become necessary during the period of rearmament, it is in the public interest that such schemes should be introduced as quickly as possible. The sooner they are brought into operation the more generous can be the ration allowed. Such an arrangement will allow those citizens who are anxious to respond to savings appeals to obtain a reasonable share of the commodities likely to become scarce.

If such arrangements as these are made, then the Government can launch new savings drives with a good conscience. Such drives would stand an even greater chance of success if they were coupled with a courageous policy of retrenchment in all but essential defence expenditure.

Be this as it may, the autumn will see the beginnings of the 'Lend Strength to Britain' campaign and rightly enough this campaign has the support of the three main political parties, employers' organizations, trade unions and professional bodies. This support will be echoed in the minds of those who rate the national well-being equal to or above personal interest. As a first stage, the maximum holdings of defence bonds will, as from October 1st, be increased from £2,500 to £3,500 and the limit on savings banks deposits from £2,000 to £3,000.

THE FINANCE ACT, 1951–III

Profits Tax

Directors' remuneration

SECTION 30 increases the maximum deduction allowable in respect of directors' remuneration in director-controlled companies. Previously, subject to the overriding maximum of £15,000, the maximum was 15 per cent of the profits (computed before deducting remuneration of directors other than 'whole-time service directors'), or £2,500, whichever was the greater – see paragraph 11 of the Fourth Schedule to the Finance Act, 1937, as amended by Section 45 of the Finance Act, 1947. A third possible maximum has now been introduced in cases where there are two or more directors (other than 'whole-time service directors') who are 'required to devote substantially the whole of their time to the service of the company in a managerial or technical capacity'. It will be seen that the definition of these directors (who, for convenience, will be referred to in this article as 'working directors') is the same as that of whole-time service directors except that the latter beneficially own, or directly or indirectly can control, more than 5 per cent of the company's ordinary share capital. The definitions of director and ordinary share capital in paragraph 13 of the Fourth Schedule to the Finance Act, 1937, should also be noted in this connexion.

If there are two 'working directors' the figure of £2,500 – see above – is in effect raised to £3,500. If there are more than two such directors this figure is further increased by the lesser of £1,000 and the remuneration of the two lowest paid 'working directors' added together. The intention of the latter limit is presumably to prevent a higher deduction being obtained by 'watering the directorate'. The same object is also served by a proviso that for the purpose of the provisions relating to this new maximum, remuneration to any one director in excess of £2,500 is to be left out of account. To obtain these higher deductions there must be the required number of 'working directors' – two or more as the case may be – during more than one-half of the chargeable accounting period.

Bonus shares

By virtue of the proviso to Section 36 of the Finance Act, 1947, no sum applied in reducing share capital is to be treated as a distribution. Profits could therefore find their way into the hands of the shareholders by means of a bonus issue of redeemable preference shares, followed by redemption, without tax at the rate applicable to distributed profits being incurred. A more common and equally successful alternative was to make a bonus issue prior to going into liquidation, in which case advantage was taken of the similar provisions in Section 35 (1) of the Finance Act, 1947.

These devices are now ineffective. Section 31 (1) of the new Act provides that where a company which has capitalized any distributable sum (say £*a*) after April 6th, 1949, reduces or returns any of its capital (say £*b*) the lesser of £*a* and £*b* shall be treated as a distribution. Under Section 31 (2) a similar provision applies where a reduction or repayment of capital takes place after April 10th, 1951 (involving, say, £*x*) and a distributable sum (say £*y*) is capitalized, either then or later. [It will be noted that there is no retrospective aspect in this case.]

Subsections (3) and (4) deal with subsequent transactions. If £*b* is greater than £*a*, only the difference will be taken into account for the purposes of subsection (2) should there be a further capitalization; whilst in the case of any further reductions or repayments of capital the previous capitalization will only be counted in so far as £*a* exceeded £*b*. Similarly, a capitalization which brings subsection (2) into operation will not be taken into account for the purposes of subsection (1) except in so far as it is still not exhausted, i.e. to the extent that £*y* exceeds £*x*; and the reduction or repayment will only count in the case of a further capitalization to the extent, if any, by which £*x* exceeded £*y*.

The section applies to bonus issues of debentures to members in the same way as it applies in the case of bonus shares.

Avoidance of profits tax

Where the Commissioners consider that the main or one of the main purposes of a transaction was to escape or reduce liability to profits tax, Section 32 gives them power to counteract any such effect by an appropriate adjustment to the

assessment. Any direction under this section – which only relates to transactions not completed before April 10th, 1951 – must specify the transaction or transactions giving rise to the direction and the adjustments considered appropriate.

Subsection (3) provides that where transactions involve

(*a*) the transfer or acquisition of any shares or debentures; or

(*b*) a change in the person or persons carrying on a trade or business, or part of a trade or business; or

(*c*) a change in the directors of a director-controlled company,

they are within the section if the main benefit which might have been expected to accrue within the three years immediately following their completion was avoidance or reduction in the profits-tax liability; that is to say, in these cases the *actual* purpose is irrelevant.

On the other hand, no direction is competent in the case of transactions for which prior Treasury consent has been specifically given under Section 36 – provided that all material facts and considerations were fully and accurately disclosed – nor by reason only that

(*a*) a distribution or a greater distribution of profits could have been made; or

(*b*) a non-director-controlled company has issued debentures (provided it has received full consideration in cash).

The section generally follows the lines of similar legislation for excess profits tax but subsection (6) is a new departure. It provides that the company may furnish the Commissioners with particulars of what they have done or propose to do, and if the Commissioners are satisfied that there are bona fide commercial reasons therefor *and* 'that no direction ought to be given' – whatever that may mean – no direction *can* be given. It is difficult to share the confidence in this provision which the Opposition appear to have had and it may prove a source of danger rather than benefit.

Much more valuable is the right of appeal to the Special Commissioners on all matters relating to a direction which is conferred by subsection (7).

Tax avoidance by operations abroad

Section 36 (1) makes unlawful the following operations in relation to a body corporate resident in the United Kingdom except when carried out with Treasury consent:

(*a*) for it to cease to be so resident;

(*b*) for the whole or any part of its trade or business to be transferred to a person not so resident;

(*c*) for it to cause or permit a body corporate not so resident over which it has control to create or issue any shares or debentures; and

(*d*) for it to cause or permit any shares or debentures (which it owns or in which it has an interest) in a body corporate resident abroad which it controls, to be transferred to *any* person, except as qualification shares.

Treasury announcements regarding the granting of consent were reported on pages 121 and 143 of our issue of August 11th last.

Residence for the purposes of the section is determined by the location of the central management and control of the body corporate's trade or business. But, if it has been established as between a body corporate and the Revenue that the body corporate was resident or ordinarily resident in the United Kingdom for any tax purpose for any year of assessment or chargeable accounting period, it is presumed to have remained resident here at all times thereafter unless the contrary is proved. The exact purpose of this provision is obscure.

A mere transfer of assets which does not result in a substantial change in the character or extent of the trade or business does not offend against paragraph (*b*).

Paragraph (*c*) does not apply to shares or debentures which are to form security for sums due to banking or insurance companies under transactions entered into in the normal course of the business of those companies (in the case of insurance companies by way of investment of its funds). Whether the paragraph would apply to cases where two companies jointly have control of a company resident abroad (e.g. where each has 40 per cent of the voting power) is a difficult question on which legal opinion would require to be sought if the point became relevant. In this connexion it has to be remembered that Section 1 (*b*) of the Interpretation Act, 1889, provides that use of the singular in statutes shall include the plural unless the con-

trary intention appears. 'Control' means the power to secure that the affairs of the body corporate are conducted in accordance with one's wishes by means of the holding of shares, or by the possession of voting power in or relation to that or *any* body corporate, or by powers conferred by the articles of association (or similar document) of that or *any* body corporate.

The maximum penalties for infringing the section are severe – two years imprisonment, or a fine of £10,000, or both. Where a body corporate is indicted it is liable to a fine of three times the total income-tax and profits tax payable in the three years of assessment and chargeable accounting periods ending before the commission of the offence, or £10,000, whichever is the greater.

Subsection (5) widens the circle of persons who may be charged under the section by including anyone who 'does or is a party to the doing of any act which to his knowledge amounts to or results in, or forms part of a series of acts which together amount to or result in, or will amount to or result in, something which is unlawful under subsection (1)'.

Accountants, lawyers, bankers and other professional advisers must clearly walk warily in view of these all-embracing provisions. Directors must be even more careful. The subsection goes on to provide that a director of a body corporate is presumed to have been a party to its every act unless he proves it was done without his consent or connivance. Further, the passage quoted in the last paragraph is read as if the words 'to his knowledge' were omitted, except where the director can prove in fact that he did not know it was an act of the type referred to.

Transactions with associated persons

The conclusion of transactions at artificial prices with persons who are not assessable at all is a matter which clearly may involve the Revenue in loss of tax – and incidentally might render Section 36 nugatory in many cases. Section 37, which replaces the less effective Rule 7 of the General Rules, deals with this problem by giving the Commissioners power to direct the tax liability of the person *not* favoured by the artificial price to be computed as if an arm's-length price had in fact been paid. But this does not apply where the person favoured by the artificial price is resident and trades in the United Kingdom provided that the sum received (or paid) is treated as a trading receipt (or deductible expense) for the purposes of computing the latter's tax.

Transactions of every kind (other than the letting of land which is assessed under No. 1 of Schedule A) are covered by these provisions, if entered into after April 9th, 1951. However, the section is confined to cases where one party to the transaction is a body of persons (including a partnership) and is under the control of the other party, or where both parties are bodies of persons and are under the control of a third party. 'Control' for this purpose has the meaning given it by Section 68 (1) of the Income Tax Act, 1945.

Death duties

Section 33 extends in two main respects the exemption from estate duty provided by Section 31 of the Finance Act, 1937, and Section 31 of the Finance Act, 1949, where land with or without funds to maintain it has been given to the National Trust.

In the first place, the exemption now applies to *objects* ordinarily kept in a building forming part of the land, which are given by the donor of that land with a view to their preservation or use in that building. It also applies to property given to the Trust as a source of income for the upkeep of any such objects, or of any land inalienably vested in the Trust, provided the property is given by the donor of the objects or the land, and is not more than is reasonably necessary for the purpose – donors to the National Trust are not encouraged unduly.

In the second place, the Treasury may direct that these three sections shall apply where, with a view to its preservation for the public benefit, a person gives any building (or an interest therein) to, or to trustees for, any government department, local authority or other body not established or conducted for profit. Before giving a direction the Treasury must be satisfied that 'the building is one for the preservation of which special steps should be taken by reason of its outstanding historic or architectural or aesthetic interest and the cost of preserving it', and that the body selected is an appropriate one. They may also require undertakings to be given for securing its preservation and reasonable access for the

public; these undertakings are enforceable by injunction.

The section applies in the case of deaths after August 1st, 1951; the date of the gift is irrelevant.

Section 22 of the Finance (No. 2) Act, 1931, following an earlier enactment, permitted securities to be issued which are exempt from taxation so long as they are in the beneficial ownership of persons neither domiciled nor ordinarily resident in the United Kingdom. Section 34 of the present Act provides that this operates and shall be deemed always to have operated by reference to the circumstances of the owner immediately before, not after, the death, thereby restoring what had been thought to be the law prior to *Re Smith* ([1951] 1 All E.R. 146). Subsection (2), however, provides that no duty in respect of deaths before December 14th, 1950, shall be leviable by reason of the retrospective nature of this section if no part of it was paid before that date.

The loss and inconvenience to the Revenue which *Re Smith* occasioned by upsetting previous practice and involving repayment claims has led to Section 35. This provides that in so far as a payment of duty and its acceptance have been regarded as satisfying a claim for duty, and were so regarded in accordance with the view of the law generally held at the time, that view of the law shall determine the liability notwithstanding that a subsequent legal decision shows it to have been wrong.

Miscellaneous provisions

Section 38 extends by two years to March 31st, 1954, the term within which capital expenditure on rehabilitation must be incurred if relief from tax is to be allowed. Section 39 makes a similar extension in the case of terminal expenses in relation to excess profits tax.

Section 40 extends the time within which proceedings for penalties must be commenced in cases of fraud and wilful default in connexion with excess profits tax and profits tax. The latest date is now three years after the final determination of the liability to tax, except that the section does not apply when the penalty was incurred before August 1st, 1945, or in the case of proceedings against personal representatives.

(*Concluded.*)

FACTORY MANAGEMENT

COST ACCOUNTANTS' SECOND SUMMER SCHOOL

(Contributed)

THE papers given at the second summer school of the Institute of Cost and Works Accountants, which was in progress at St Catherine's College, Cambridge, as this issue went to press, indicate, on the part of cost accountants, increasing interest in practical and technical matters as opposed to the pure technique of their profession. Of the five papers which were presented, only one can properly be described as falling in the ambit of cost accounting as such, although the subjects discussed in the other papers are all closely related to the work of the accountant in industry. This is highly desirable: if accountants are to play their proper part – one that they, in possessing the ability to reduce multifarious activities to the common factor of money, alone can play – in British industry, they must be familiar not merely with industrial processes but also with the various techniques, such as production control, which are essential to industrial management. It is only too true, as Mr F. C. Lawrence says in his paper, that 'no cost accountant can perform his duties at a desk' if he is to understand industrial problems and assist in resolving them.

Factory Organization and Management

The first paper, entitled 'Factory organization and management', given by Mr F. C. Lawrence, M.C., B.SC.TECH., F.C.W.A., A.M.I.E.E., Principal, Paton Lawrence & Co, Manchester, and chairman of Paton Lawrence Management Training Ltd, on Tuesday morning, discusses the psychological and human side of industrial management. In his view, managements of the medium and smaller sized units in Britain are lacking in the vision necessary for continuous progress. 'The organization and management of factories in England are, in the main a good deal below the right level', he said, although there are notable exceptions, and this is due much more to lack of managerial, rather than technical, skill as most of the reports issued by the Anglo-American Council on Productivity have pointed out.

Technical knowledge and knowledge of managerial methods in this country are not lacking: what is lacking is the ability to use them. The future will depend to a great extent on such things as improved training, particularly for management, and more thorough investigation of the facts of the problem under consideration.

Production Control

The necessity for 'Production control', the title of the paper presented by Mr Bruce A. C. Hills, M.B.E., B.SC., A.C.G.I., Comptroller, S. Smith & Son (England) Ltd, on Wednesday, closely related in many of its phases to cost accounting, is outlined and effectively illustrated by means of numerous diagrams. Mr Hills makes it clear that production control does not necessarily mean a system of paperwork, though that may be unavoidable. The need to reduce movement of work in progress to a minimum, where production is organized on a 'line' basis, using 'layout' as a physical method of control, achieves the object with a minimum of paper work. In the absence of this form of organization, production control must rest on paper work which must reveal as quickly as possible whether the production plan is being carried out or not.

Lack of good control results in great wastage of effort especially in handling and transporting, and cost accountants have often failed to draw attention to this common form of avoidable cost. The field for cost reduction, based on satisfactory production control methods, is a large one.

Work Measurement

The increasing application of standard costs in activities where it has not formerly been thought possible to measure the volume of work, is a matter of common knowledge. The value of standard costs, however, depends to a great extent on the validity of the physical standards of performance set up, and so far as labour is concerned, special problems are involved. In 'Work measurement', Mr D. J. Desmond, M.SC., M.I.E.E., who is Research Fellow in Engineering Production at Birmingham University, on Thursday morning surveyed the development of this subject, the foundation of which was laid by F. W. Taylor, the progenitor of scientific management.

The problem is basically that of determining whether the unit of measurement is in fact objective – i.e. of determining the extent to which the personal qualities of the measurer affect the assessment. The Institution of Production Engineers and the Institute of Cost and Works Accountants are jointly studying this problem in conjunction with Birmingham University's Work Measurement Research Unit, and a report is expected to be published later this year. The results of this study will be very important for employers and employed, because of its bearing on piece-work prices etc., and for accountants because of its relationship to cost control which must always rest on a sound assessment of work performed.

Fourth Element

On Friday, Mr E. F. Brown, F.C.W.A., chief cost accountant of Ferranti Ltd, surveys in the 'Fourth element', the cost data produced by his company over a period of ten years, enabling the changes in unit costs, arising from changes in output, to be studied. Mr Brown attacks the common analysis of costs as between fixed, variable and semi-variable, concluding that this analysis, as well as such concepts as that of the 'break-even' charts, are extremely hypothetical. Instead, he suggests the terms 'persistent' (these are the 'fourth element' of costs) and 'mutable' costs, which may well represent more satisfactory concepts for accounting. Mr Brown's paper, with the charts and graphs provided, represents an interesting case history, although he underestimates perhaps the extent to which the 'break-even' chart is commonly understood to represent a simplification. Moreover, the relationship of overheads to unit costs may be much more complex than even Mr Brown suggests: overhead expenditure represents a conglomeration of different items subject to enormously different influences, and where volume of production changes, the precise effect on costs requires extremely careful analysis.

Selection and Training of Personnel

The final address is to be given this morning by Mr J. Munro Fraser, M.A., controller of membership services, National Institute of Industrial Psychology, in which he will discuss the selection and training of personnel. Success in selection is dependent on matching up two sets of infinitely variable factors, and it is essential to use a plan such as the seven-point plan of the National Institute of Industrial Psychology. This plan enables both the job and the candidate to be studied under each of seven points or categories. From the relationship of the two can be determined the suitability of the candidate or otherwise. On training, Mr Fraser will emphasize that motivation is vital for learning, since success in the latter, in addition to practice, needs periods of 'insight'.

AUSTRALASIAN COMMENTARY–III

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

Action on Inflation

THE inflationary spiral is causing some concern in Australia. Many high-level conferences have been held and a great many solutions have been suggested. In the meantime, the New South Wales Premier placed a blanket freeze on prices as they stood on July 18th. The whole situation is aggravated by an attempt to fit in an expanded defence programme. Solution is difficult here because we have six state constitutions apart from federal government. At the recent premiers' conferences nothing stood out so clearly as that it will be extremely difficult to obtain general agreement between the states in respect of matters outside federal control. To instance one aspect of the matter: a price freeze in New South Wales tends to divert goods to other states where there is no control of such a rigid type. Some states want the Commonwealth to take over price control, others do not, and the Commonwealth is reluctant.

Depreciation and Costing

In the June issue of *The Federal Accountant* Mr F. K. Wright, B.COM., argues for the recovery, in costs, of depreciation based on current replacement values. He bases his argument on the fact that repairs and maintenance (which he considers are mainly replacements of machine parts) are treated as a cost of production, and are valued at current prices as a matter of course. Thus, by analogy –

> 'If current replacements are admitted to be part of the cost of production, there can be no serious objection to basing depreciation charges for cost purposes on current replacement costs.'

Mr Wright's suggestion does not seem a far cry from Professor Stigley's stringent view which he expressed in his *The Theory of Price*, viz.:

> 'To insist on recovering historical costs is irrational, and people who obstinately insist on doing so must be phenomenally lucky to avoid the bankruptcy courts.'

Where have we heard that cry before – 'You lucky people, you!'?

Revaluation of Fixed Assets

In a paper read before an accounting congress in Victoria, Mr D. M. Ferguson, F.C.A.(AUST.), considered different situations which may arise in a revaluation of fixed assets. He thought that, while an issue of bonus shares was not unattractive on a short-term basis, it had limitations on a long-term basis:

> '. . . the company is faced with an increased depreciation charge, an increased dividend commitment on the larger capital and possibly a greater allocation to reserves if the same ratio of reserves to profit is to be maintained.'

These factors, he pointed out, may not be serious while profits are increasing and the price level is rising, but if profits start to fall, the picture is different. The most serious result, he felt, was that the company may have difficulty in raising additional capital if it were required. The earning capacity of the company in relation to capital might be prejudiced by the 'dead weight' of the bonus issue.

On the auditing side, he considered that it was essential to insist on full disclosure in the annual accounts, and if this were not made then the audit report may have to be qualified. (*The Chartered Accountant in Australia*, June.)

A New Kind of Accounting

In order to make their decisions rationally, the participants in business activity need a different kind of accounting, concluded Mr R. J. Chambers, B.EC., A.I.C.A., in his research lecture at the University of Queensland in July. The trend of his argument is that the persons indicated want information which bears on the future, and this leads to the recommendation that there should be superimposed on existing accounting technique, machinery for taking into account by an index number, correction of the effects of changes in the purchasing power of money.

Pleas such as this are becoming more insistent; but there seems to be little or no evidence pointing to constructive work on the problem of devising a suitable index. There may even be limitations, from the practical point of view, which virtually

prohibit the computation of such an index.

But then again it is very doubtful indeed whether the index approach is the answer in any case (one cannot help but profit from a reading of Mr Parkinson's views in *The Accountant*, April 28th, 1951, at page 402).

Share Valuation by Points

In the April issue of *The Accountants' Journal* of New Zealand, Mr F. M. Bell, A.P.A.N.Z., discusses a novel method of valuing unlisted shares by points. He argues that of the two most important factors, viz.: (*a*) future maintainable profits, and (*b*) rate of capitalization, the former is possible of fairly objective calculation, whereas the latter 'is decided upon more or less out of the accountant's head'. To remove some (not all) of the element of subjective opinion Mr Bell advocates his points system.

He allots a total of 100 points among six different items – (i) the number of years the company has been in business (2 points per year), (ii) ratio of fixed assets to fixed liabilities, (iii) ratio of current assets to current liabilities, (iv) reserves, (v) patents, trade-marks, etc., and (vi) the 'valuer's discretion'. Each has a maximum of 20, 15, 20, 10, 20, 15 points respectively. The procedure is to estimate future maintainable profit, capitalize this at a rate corresponding to bank overdraft interest plus 1 per cent, and multiply the result by the ratio of the points allotted to the maximum points.

Points are allotted for items (ii)–(v) in a special way; e.g. for (ii) they are calculated as follows:

$$15 - \left\{\frac{\text{Fixed liabilities}}{\text{Fixed assets}} \times 15\right\} \text{Maximum 15 points.}$$

and for (iii):

$$20 - \left\{\frac{\text{Current liabilities}}{\text{Current assets}} \times 20\right\} \text{Maximum 20 points.}$$

There are difficulties associated with this system. A company would never get the maximum points in respect of these items (except where, as the author claims, there were no fixed liabilities for example). In point of fact with a favourable current ratio of 1 : 2 (liabilities : assets) the rating would drop 10 points immediately. If there were no patents etc. (as would be common) it would drop another 20 points. It appears that the six items referred to apply in all cases to produce the same maximum.

There is much food for thought in such a system, although it is most desirable that any which is worked out be based formally on mathematical principles.

Financial Review

It seems to us in Australia, that the numbers of English people who are interested in 'things going on' here are increasing apace. If that is so there may be English readers who, from their own or their clients' point of view, may welcome the news of publication of the first issue of *The Australian Financial Review* (August 16th) by the *Sydney Morning Herald*. This issue is of twenty-eight pages and it is to be published weekly. There is a wide, authoritative coverage in all matters affecting the commercial and business communities.

Describing Stock on Hand

In Victoria, the Companies Act, 1938, requires that a balance sheet of a company shall state the basis of valuation of each class of assets. From an examination of 181 balance sheets, Mr K. C. Keown, A.I.C.A., found that seventeen different items had been used to indicate the 'basis of valuation' of stock on hand. Here are the first six together with the number of companies which used the terms:

Basis	*Number of companies*
At or below cost..	79
At cost	27
At lower of cost or market value	16
At cost and/or valuation ..	12
At valuation	11
At valuation not exceeding cost	11

Mr Keown considered that of *all* the terms used, only four complied with the requirements of authority or modern accounting theory. These were, 'at cost', 'at lower of cost or market value', 'at lower of market or replacement value' and 'at cost or replacement value (whichever is less). . . .' (*The Australian Accountant*, July.)

In England, the Eighth Schedule to the Companies Act, 1948, makes no stipulation as to how the value of stock on hand, which is a current asset, is to be ascertained or shown. It does, however, require that if a current asset is shown in the balance sheet at a value in excess of what the directors consider it would realize in the ordinary course of the company's business, the fact that the directors are of that opinion must be noted. At a distance of 12,000 miles, this provision ought to be pleasing to accountants, since it recognizes cost as the fundamental basis of accounting. It would seem that it should cause a drift to a practice more in tune with the bulk of accounting rules, viz. computing stock at cost and leaving market value falls to be determined by

management and made the subject of separate treatment. This procedure preserves the important distinction between costs and losses.

Inventory Manual

All information relative to the procedures to be adopted in the physical stocktaking should be assembled into a company inventory manual, said Mr H. W. Glasgow, A.R.A.N.Z., in the May issue of *The Accountants' Journal* of New Zealand. An important section in this manual will be that showing, in detail, the information required on inventory tickets in respect of each product handled.

Although the complete manual would cover all aspects of the matter, only relevant extracts should be furnished to the particular personnel concerned. Mr Glasgow's procedural recommendations, which are suitable mainly to large organizations, include the following *schema* of responsibility: there is an inventory supervisor to whom are responsible the accounting area supervisors (to facilitate allocation to proper cost accounts) who, in turn, control the inventory ticket writers, the checkers and messengers. The processing group would be responsible for the summarization of the inventory in its finally required form. In addition there is an operating department supervisor who is responsible for seeing that all stocks are in a proper condition for the inventory, and operating area supervisors who will work with the accounting area supervisors and ensure that accurate quantities and identifications are obtained of all materials in their areas.

WEEKLY NOTES

The Institute's Summer Course

As already announced, the fifth annual summer course of The Institute of Chartered Accountants in England and Wales will be held next week at Christ Church, Oxford. The course assembles during tomorrow, Sunday, afternoon and evening, and will disperse after lunch on Friday next. During this period ample opportunity will be provided for both formal and informal discussion, stimulated by thought-provoking addresses from speakers whose names and subjects were detailed in our issue of February 24th last.

In early issues we hope to include a report of the proceedings and a photograph of some of the personalities attending the course, and subsequently to reproduce the papers which are being presented.

The Association's Examination Results

The results of the June 1951 examinations of the Association of Certified and Corporate Accountants have now been announced and show that in the Final there was a total of 1,025 candidates; of those who sat for Part I 262 (50 per cent) passed, the First Place and Prize being won by Mr C. S. Jones of Bristol; 178 (44 per cent) passed Part II, the First Place and Prize being awarded to Mr P. J. T. Vayro of Milford, Nottinghamshire, and 28 (28 per cent) were successful in Parts I and II taken together – the First Place being awarded to Mr R. M. R. Bence of Birmingham – although of those who failed in this section, 24 candidates were successful in Part I only.

In the Intermediate 1,005 candidates sat, of whom 307 (30 per cent) passed, the First Place being won by Mr F. H. Brooks of Charlton. There were 50 candidates for the Preliminary of whom 30 (60 per cent) were successful.

A list of the successful candidates in all sections of the Final, and a summary of the complete results appear elsewhere in this issue.

Japan and Sterling

Since the war, the trading arrangements between the British Commonwealth and Japan have been regulated by a series of annual currency agreements. The main reason for these short-term arrangements has been that the yen was very closely tied to the dollar. Since the United States was the principal representative of the victorious allies, and the occupying power more or less responsible for restoring in some measure the economic structure of Japan, it was natural that in the end it would want to reduce trade negotiations to dollar terms. This meant in turn that Japan's external credits would have to be paid in dollars. At least such was the ruling of the United States.

In the event this requirement was exercised with no great stringency. But the fact that the American authorities might do so was a continued deterrent to a liberalization of trade between the Commonwealth and Japan beyond a certain point.

Under the new arrangement, provision has been made for the mutual transfer of sterling and yen debts between this country and Japan – and also with the rest of the sterling area – which removes the limitation of dollar convertibility. The new agreement is similar in form to other recent arrangements for the transfer of balances between this country and other nations, including the provision for periodical review of the situation to prevent large balances accumulating one way or the other.

The result of this agreement should be a freeing of trade with Japan – including its trade with Hong Kong – which will be welcome from the point of view of liberalizing world trade, but will be received with mixed feelings in certain British industries.

The Chancellor in America

Mr Gaitskell is now in the United States to fulfil a series of engagements which will last most of this month and will include a visit to Ottawa for a meeting of the North Atlantic Council. He goes first to Washington to the annual meetings of the International Monetary Fund and the International Bank. Just as important, however, as the formal meetings of these two organizations with their fixed agendas, will be the informal meetings which he will have with United States officials and with those representatives of the rest of the Commonwealth who are there for the same purpose as himself.

He goes to Washington at a critical time for this country's external trade position. There is every prospect that the dollar shortage has returned with something approaching its old virulence, and it is expected that the Chancellor will let it be known that this country wishes to continue exchange control into 1953. He will also have to make some pronouncement while he is there if this country proposes to avoid repayment of the first instalment of interest and capital on the American loan which falls due at the end of this year. Under what circumstances the interest payments may be waived, and on whose final interpretation of the agreement, are still points which have to be cleared up. Payment of the first instalment of the refund would itself make this country's dollar position that much more precarious and that fact will doubtless be made known when exchange control comes up for discussion.

Meetings of the Fund are likely to be enlivened by the revival of the old controversy about gold sales at a premium where a vocal school of thought is led by South Africa.

Europe Can Do It

The statement issued at the end of last week by the O.E.E.C. in Paris, following a meeting of the council at ministerial level, had an unusually optimistic flavour about it. In substance it said that Western Europe can have both security and economic strength if the right policies are followed. The right policies are broadly seen as the need to curb inflation in its more rampant forms, higher steel and coal production and higher productivity in general.

There is nothing the matter with this recipe. It is a prescription which could well be taken and applied directly to this country. To state the need for certain lines of policy is, however, to perform the easier side of the task. For instance, everyone is agreed in this country that much more could be produced by the industrial machine if there were an assured increase of coal and steel over the winter months to come. But there is not general agreement about how it should be obtained. Similarly there is much being said in this country about the evils of inflation – and there agreement ends.

Probably the most useful purpose which a document of this kind serves at the moment is outside Western Europe. The fact that the countries of the European Atlantic seaboard can, at this moment, indulge in an objective yet optimistic appraisal of their future should have a value in Washington at the forthcoming international conferences which open this week – and of course behind the Iron Curtain.

Rearmament Delays

The tenth report of the Select Committee on Estimates was published last week-end. It deals with the progress of the rearmament drive. One of the features of the report which will cause most concern to industry in general is the opinion expressed that supplies of sheet steel from Margam will not be as substantial as had been expected. A shortfall of production is expected owing to a shortage of steel scrap. Deliveries of machine tools are also causing some concern, but the brunt of any shortage here is expected to fall on civilian work.

Dealing with man-power, the Committee considers that the position is serious. Some industries, such as motor-cars, are retaining workers who are temporarily redundant and this is having an effect on additional supplies of labour for such industries as aircraft. There are signs that as the cost of living rises more women are seeking part-time work, but there still appears to be a lack of women coming forward for employment.

The Committee notes that the Ministries concerned are generally satisfied with the liaison with industry on the allocation of raw materials. So far as equipment for the Services is concerned, they find that the worst delays are in vehicles, clothing and canvas.

Can Prices Fall?

The remarks of the chairman of the Wholesale Textile Association last week on further possible price increases were a remarkable tribute to a decade of inflation and restriction. The public's idea, said Mr Spence, that prices were due for a fall was quite unsound: on the contrary, recent declines in the prices of wool and cotton would only slowly be passed on to the consumer.

There is an old-fashioned idea still current, however, that prices are the result of demand as well as supply. If there is no buyer at a given price, that price will fall unless the supplier prefers to hold out for a recovery in demand. That idea is still true. If the public will not buy, prices will come down no matter what raw material prices do. Manufacturers have been able to pass on higher costs over recent years because the public has been willing to go on paying each time a little more.

The question now arises, who will give in first? Will consumer resistance to present price levels be sustained? If it is, then prices will ease. Will that resistance weaken because the public must renew its wardrobe or because other goods are becoming scarce and purchasing power is being concentrated on certain lines only? If this is true, Mr Spence will be right.

Prices can fall: whether they do fall will depend on who holds out longer – the public or the producers.

FINANCE AND COMMERCE

Stock markets still maintain a firm front. It seems to be widely admitted now that even with three years of possible limitation of dividends it is better to hold equities than fixed interest stocks, and better by far to hold shares than cash. This opinion, however, is reflected more in lack of selling pressure rather than in any new buying force. There is just enough support to keep prices steady.

Very Neat

One of the neatest balance sheets we have seen for some time is provided in the accounts of Ruston & Hornsby Ltd which we reprint this week. In the original it covers no more than 7½ square inches and in that space provides the essentials of the position of the company, and of the group, with the comparisons. On the opposite page is the profit and loss account starting with the group profit and going through to the parent carry forward.

This concentrated view is something we have long advocated. It is in essence the main idea behind the Institute's recommendation that detail should be relegated to separate statements away from the main balance sheet. Mr W. J. Ruston, the company's chairman, referring to the redesigning of the accounts this year, emphasizes this particular point.

The accounts are submitted in this form, he says, in the confident hope that shareholders generally will find it easier to follow and grasp the essential points. Thus the company's liquid position is easily appraised as well as the value of the shareholders' interest in the business. Where a more detailed study of the accounts has to be made, additional information is contained in the notes.

Spate of Figures

It has been said that the new Act entails the production of accounts which are mentally indigestible. The present chairman's predecessor referred last year to accounts 'which although intelligible to the accountant make for a great deal of confusion in the minds of those less versed in the intricacies of accountancy'.

We would suggest that the intricacy is in large measure due to a spate of figures that the eye has to discard in looking for the main facts. The form of balance sheet now adopted overcomes the difficulty. It is far better than all the pictures of assets, diagrams and so on that make a company's accounts look like the walls of an infants' classroom.

These new accounts must be read in conjunction with the chairman's comments, which are too long to reproduce, but are worth giving where they touch on the fixed assets position.

The directors, he said, are paying close attention to the problem of plant replacement at today's enhanced price level. An estimate has been made of the capital sum required to replace machine tools etc. acquired in pre-inflation days and which should be replaced in the next eight years or so. I can tell you, he says, that over and above the original cost, an amount of £1,400,000 at least may be required for this purpose, and the figure may be taken as an approximate measure of the short-fall in providing depreciation by reference to historical cost.

Plant Replacement

At the end of March 1950, Mr Ruston continues, £350,000 had been accumulated in a plant replacement reserve and £200,000 has been transferred to this reserve from contingencies reserve to provide a total of £550,000, an estimate of the proportion of the total short-fall up to that date. It is the directors' intention to set aside £100,000 a year to this reserve, but it may well be, he says, that this figure will need revising in the light of the trend of price levels in the next few years.

It is the view of the board that only by such treatment of the problem can attention be focused on the urgent need for conserving the liquid resources of the company and, by deducting the amount set aside before profits are struck, the directors recognize that 'an account of the earnings of the business under present-day conditions is incomplete without due recognition of the need for preserving intact the physical as well as the monetary capital of the business'.

Less to Digest

It will be observed, states Mr Walter Venables, A.C.A., the chairman of Spiers & Pond Ltd, in his annual review this year, that the form of accounts has been modified by the exclusion of the profit and loss account of the parent company. It reduces the amount of figures stockholders are asked to digest, he says, and accords with modern practice.

We have for long urged the elimination of profit material which is surplus to requirements in this sense. We even go so far as to suggest that there is no need for overlapping the directors' report and the profit and loss account. The account itself can be sufficient.

As Mr Venables says in this case, all the material information which shareholders require is contained in the consolidated profit and loss account which gives the results of the group as a whole. And, we might add, in an easily-read manner.

Money Market

With applications totalling £342,760,000, the market's allocation of Treasury bills on August 31st was 63 per cent of requirements against 77 per cent the previous week. The average rate was lowered to 10*s* 2·87*d* per cent. This week's offer is increased to £260 million and there is a call of £40 million against Treasury deposit receipts.

RUSTON & HORNSBY LIMITED AND SUBSIDIARY COMPANIES

(Davey, Paxman & Co Ltd: Ruston & Hornsby (Australia) Pty. Ltd)

Balance Sheet, March 31st, 1951

	Ruston & Hornsby Ltd 1951	Ruston & Hornsby Ltd 1950	Group 1951	Group 1950	
	£	£	£	£	
Current Assets					
Stock-in-Trade and Work in Progress	3,446,284	3,730,595	4,595,362	5,171,436	
Sundry Debtors, Payments in Advance, etc., *less* provisions	1,427,157	1,380,935	2,186,956	2,027,466	
Subsidiary Companies	282,298	267,221	—	—	
Tax Reserve Certificates	800,000	450,000	1,000,000	550,000	
Cash at Bankers and in hand	614,661	270,975	1,250,591	362,200	
	6,570,400	6,099,726	9,032,909	8,111,102	
Current Liabilities and Provisions					
Sundry Creditors and Accrued Expenses ..	855,051	842,287	1,592,014	1,361,851	
Taxation and Deferred Repairs	282,500	244,000	282,500	274,168	
Provision for Maintenance and Guarantees ..	—	—	77,696	74,615	
Provision for unrealized inter-company profit ..	77,089	—	—	—	
Proposed Dividends	199,894	175,587	199,894	175,587	
				12,375	*Loan*
	1,414,534	1,261,874	2,152,104	1,898,596	
Net Current Assets	5,155,866	4,837,852	6,880,805	6,212,506	
Trade Investments (see *Note II*)	2,119,984	1,914,854	967,355	913,605	
Fixed Assets (see *Note I*)	1,680,440	1,599,515	2,202,108	2,080,161	
	8,956,290	8,352,221	10,050,268	9,206,272	
4½ per cent Mortgage Debenture Stock, 1965-75	350,000	350,000	350,000	350,000	*Minority Interest in a Subsidiary Company*
				6,932	
Stockholders' Interest	£8,606,290	£8,002,221	£9,700,268	£8,849,340	
Share Capital					
Authorized, Issued and Converted into Stock					
4,100,000 Ordinary Shares of £1 each	4,100,000	4,100,000	4,100,000	4,100,000	
350,000 5 per cent Cumulative Preference Shares of £1 each	350,000	350,000	350,000	350,000	
100,000 6 per cent Cumulative 'B' Preference Shares of £1 each	100,000	100,000	100,000	100,000	
Authorized and Unissued					
450,000 Unclassified Shares of £1 each ..	—	—	—	—	
	4,550,000	4,550,000	4,550,000	4,550,000	
Reserves and Undistributed Profits (see *Note III*)	3,538,290	2,992,221	4,482,208	3,657,340	
Future Income Tax (Schedule D, 1951-52) ..	518,000	460,000	668,060	642,000	
	£8,606,290	£8,002,221	£9,700,268	£8,849,340	

W. J. RUSTON
E. R. JONES
Directors

The notes are reproduced on page 226. – Editor.

Profit and Loss Account – Year ended March 31st, 1951

		1951	1950
		£	£
Trading Profit of the Group after charging depreciation £280,283 (1950, £220,609) all expenses of working and management and setting aside £120,000 (1950, £75,000) for increased cost of plant replacement		1,627,661	1,671,125
Add Income from Trade Investments		171,097	109,305
Income from other Investments		4,374	2,203
		1,803,132	1,782,633
Deduct			
Debenture Interest		15,750	15,750
Other Interest payable..		—	3,659
Capital Issue expenses		—	15,814
Profits Tax		255,010	233,742
Income Tax on profits of year		743,597	697,401
Tax Equalization Reserve		41,800	47,250
Net Profit of the Group		746,975	769,017
Less Profits attributable to minority interest in a Subsidiary Company..		—	1,696
Retained in Accounts of Subsidiaries ..		95,797	141,860
General Reserve ..	£65,000		
Profit and Loss Account	30,797		
	£95,797		
Net Profit of Ruston & Hornsby Ltd		651,178	625,461
Add Balance brought forward		194,617	184,666
Sundry Provisions no longer required ..		—	16,540
		845,795	826,667
Available and appropriated as follows:			
General Reserve		200,000	200,000
Stock and General Contingencies Reserve ..		221,879	200,000
Pensions Reserve		—	50,000
Proposed Dividends (net):			
Preference (including £6,462 paid)		12,631	12,925
Ordinary 9 per cent		193,725	169,125
Balance carried forward per Balance Sheet of Ruston & Hornsby Ltd		£217,560	£194,617

Directors' Emoluments for the year, consisting of £42,426 remuneration for Executive Services in connexion with the management of the Company, £5,042 remuneration for Executive Services in connexion with the management of a Subsidiary Company (payable by the Subsidiary Company), £3,150 Fees for services as Directors of the Company, and £2,094 Fees for services as Directors of Subsidiary Companies (payable by the Subsidiary Companies), amounted in the aggregate to a gross figure of £52,712. In addition, aggregate Pensions to Directors for the year amounted to £5,583.

NOTES ON ACCOUNTS

	Ruston & Hornsby Ltd 1951	Ruston & Hornsby Ltd 1950	Group 1951	Group 1950
I Fixed Assets	£	£	£	£
Land and Buildings partly at cost and partly at independent valuation in 1935	611,216	593,230	886,103	828,306
Less Depreciation	122,589	108,622	155,948	136,594
	488,627	484,608	730,155	691,712
Plant and Machinery, Transport Vehicles and Office Equipment partly at cost and partly at independent valuation in 1935	2,067,540	1,835,401	2,607,510	2,336,695
Less Depreciation	943,060	782,424	1,207,971	1,015,381
	1,124,480	1,052,977	1,399,539	1,321,314
Loose Plant, Patterns, Jigs and Tools at cost *less* amounts written off ..	67,333	61,930	72,414	67,135
Total Fixed Assets per Balance Sheet	£1,680,440	£1,599,515	£2,202,108	£2,080,161

	Ruston & Hornsby Ltd 1951	Ruston & Hornsby Ltd 1950	Group 1951	Group 1950
II Trade Investments				
Subsidiary Companies at par value ..	1,152,761	1,001,881	—	500
Ruston-Bucyrus Ltd at par value (see *Note V*)	824,998	799,998	824,998	799,998
Other Companies at cost or par value ..	142,225	112,975	142,357	113,107
	£2,119,984	£1,914,854	£967,355	£913,605

	Ruston & Hornsby Ltd 1951	Ruston & Hornsby Ltd 1950	Group 1951	Group 1950
III Reserves and Undistributed Profits				
Capital (see *Note IV*)	50,730	7,604	75,243	30,970
Plant Replacement	650,000	350,000	795,000	475,000
Revenue:				
General	1,600,000	1,400,000	1,893,000	1,635,228
Stock and General Contingencies ..	600,000	650,000	872,533	832,000
Pensions	250,000	250,000	329,800	329,800
Tax Equalization	170,000	140,000	217,050	175,250
Profit and Loss Account	217,560	194,617	299,582	179,092
	£2,837,560	£2,634,617	£3,611,965	£3,152,370
Total Reserves per Balance Sheet ..	£3,538,290	£2,992,221	£4,482,208	£3,657,340

	Ruston & Hornsby Ltd	Group
IV Movements on Capital Reserve	£	£
Amount at March 31st, 1950	7,604	30,970
Surplus on revaluation of Trade Investments ..	40,690	41,274
Profit on Sale of Fixed Assets, etc.	2,436	2,999
Amount at March 31st, 1951	£50,730	£75,243

V The investment in Ruston-Bucyrus Ltd is stated at par value. The equity of Ruston & Hornsby Ltd in this company's capital and reserves exceeded the par value of the investment by £1,028,000 at December 31st, 1950.

VI The financial year of an overseas Subsidiary Company ended on December 31st, 1950. It would unduly delay the preparation of consolidated accounts if the accounting date coincided with that of the Holding Company.

VII Outstanding commitments for Capital Expenditure amount to approximately £383,000 (Group £607,000).

VIII There has been transferred from Stock and General Contingencies Reserve to Plant Replacement Reserve £200,000 and to provision for unrealized inter-company Profits £71,879. In the Group Balance Sheet £90,533 has been transferred to Stock and General Contingencies Reserve, being sundry provisions for taxation, etc., no longer required in the accounts of a subsidiary company.

RUSTON & HORNSBY LTD AND SUBSIDIARIES

(Davey, Paxman & Co Ltd: Ruston & Hornsby (Australia) Pty. Ltd)

SIX-YEAR REVIEW

	Years ended March 31st					
	1946	1947	1948	1949	1950	1951
	£	£	£	£	£	£
Net Earnings	193,415	718,040	1,146,018	2,020,760	1,747,410	1,787,382
Taxation	24,319	401,888	602,949	1,044,117	978,393	1,040,407
Net Earnings after Taxation ..	169,096	316,152	543,069	976,643	769,017	746,975
Dividends paid	96,900	125,675	125,675	153,862	182,050	206,356
Earnings retained in the Business	72,196	190,477	417,394	822,781	586,967	540,619
Net Working Capital	2,530,494	3,526,793	3,846,293	5,744,476	6,212,506	6,880,805
Ratio current assets to current liabilities	2·7	3·0	2·4	3·4	4·2	4·2
Land, Buildings, Plant and Equipment	857,368	1,168,066	1,546,308	1,911,801	2,080,161	2,202,108
Ordinary Share Capital and Reserves	2,732,056	4,159,529	4,582,085	6,533,065	7,757,340	8,582,208
Book value per Ordinary Share	£2·2	£2·5	£2·8	£3·2	£1·9	£2·1
Ratio of net dividend to book value of Ordinary Shares..	3·1%	2·72%	2·45%	2·15%	2·18%	2·25%
Number of Shareholders ..	7,587	8,193	8,178	8,569	8,736	8,756
Under £100	3,455	3,317	3,308	3,023	1,807	1,778
£100–£500	3,450	4,066	4,062	4,606	4,866	4,921
£501–£1,000	411	490	489	597	1,292	1,288
Over £1,000	271	320	319	343	711	769
Number of Employees ..	7,404	7,851	8,417	8,813	8,815	8,838

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Building Society Interest

SIR, – With reference to Section 23 of the Finance Act, 1951, with regard to the special arrangements to be made with the building societies, I should like to ask a question as to whether (*a*) the Crown will, under the provisions laid down, obtain more total tax than they would have done if the special provisions had not been made, (*b*) whether a measure of inequity does not exist in the provisions so far as the sur-tax payer is concerned, and (*c*) if the answer to (*a*) and (*b*) is in the affirmative, whether the application of the true gross rate for sur-tax purposes would not resolve the matter.

The position appears to be as follows:

1. The Government is renewing the agreement with the building societies that income-tax on shares and deposits (in the case of depositors with under £5,000 in any one society) shall be levied on the societies (who pay the interest free of income-tax) on a composite or average rate. It appears very clear that this method is simple, saving time and labour to investors, building societies and the Inland Revenue.

2. By the application of the composite rate we are informed that the total income-tax becoming payable on building society interest is considered (as a result of investigation) to be roughly equivalent to the amount that would have been payable if income-tax had been deducted at the standard rate and each investor had been entitled to apply for repayment.

3. Many building societies are paying on their shares an income-tax free dividend of £2 5*s* per cent, and at the composite rate income-tax payable by the societies is in the neighbourhood of 5*s* 3*d* the equivalent gross rate is £3 1*s* per cent approximately.

Under Section 23 of the Finance Act, paragraph (2) (ii) the amount actually paid by the societies or credited in respect of dividend or interest shall be deemed for sur-tax purposes to be a net amount corresponding to the gross amount from which at the standard rate for that year has been duly deducted, and the amount on which sur-tax is to be charged in the case of any person shall be calculated accordingly.

This means that for a net payment of £2 5*s* (free of income-tax) the sur-tax payer will be taken as having received income for sur-tax purposes, of £4 5*s* 8*d* per cent. This involves levying sur-tax on a gross yield of £4 5*s* 8*d* per cent whereas the actual gross payment is £3 1*s* per cent.

4. As the amount receivable by the Crown from income-tax is as near as may be the same as it would have received without the application of these special provisions, and for sur-tax is in excess of the amount that would have been received, it would appear that the Crown is receiving more total tax than is appropriately chargeable under the clause in Section 23 which reads as follows: 'Provided that the Commissioners in exercising their powers of entering into arrangements under this section, shall at all times aim at securing that the total tax becoming payable to, and not becoming repayable by, the Crown is, when regard is had to the operation of the subsequent provisions of this section, as nearly as may be the same in the aggregate as it would have been if those powers had never been exercised.'

If it happens that the Crown would under the precise existing arrangements of Section 23 receive more tax than it would have received without these special provisions, I suggest that the equitable way out of the situation would be to levy, on sur-tax payers, sur-tax on the true gross rate (£3 1*s* 0*d* per cent in the above example) which can easily be computed, and not on an artificial gross rate.

Yours faithfully,
For W. & J. LEIGH LTD,
P. LEIGH BRAMWELL,
Bolton. *Director.*

Quoted and Unquoted Investments

SIR, – With reference to 'Menthab's' inquiry in your issue of August 25th, there does not seem to me to be anything in paragraphs 8 (1) (*a*) and 11 (8) of the Eighth Schedule to the Companies Act, 1948, to support the contention of the auditor concerned – in fact the reverse would seem to be implied by the wording of the relevant paragraphs – and it would be interesting to know the basis of his argument. It is perhaps significant, however, that in the same issue of your journal, trade investments are, in fact, so classified in the reproduction of the accounts of Edgar Allen & Co Ltd.

Yours faithfully,
Hull. T. K. VENTER, A.S.A.A.

Central Land Board: Claims and Applications

SIR, – I have read some comments in 'Weekly Notes' of your issue of August 18th last, on the Board's annual report for 1950–51, and I note in the second paragraph that the sum of £3 million for loss of development values is twice mentioned. This should, of course, be £300 million – no doubt a printer's error.

You also state '. . . the applications so far made represented rather less than a quarter of the estimated total'. This statement appears to arise from an assumption that the total number of applications for determination of development charge has been estimated, and is expected to equal the claims for depreciation. This is, in fact, not so. The basis for claims was that development value in the land existed on the appointed day (July 1st, 1948). Applications for development charge will continue to be

made at any time in the future, and there may be a number of successive applications in relation to successive developments on the same land. No doubt much of the land in respect of which claims have been made will be the subject, in the near or in the far future, of an application for determination of charge; on the other hand some of it may never be developed (although this contingency does not invalidate a claim).

In other words, the number of claims, which is known, bears virtually no relation to the number of applications, which will continue to be made as long as Part VII of the Act is in force; it follows that there can be no relationship between the £300 million and the amount which may be collected by way of development charge within the next few years.

I hope you will forgive my making these points, but I feel the explanation might be of interest to those of your readers who take a specialized interest in the subject.

Yours faithfully,
D. A. COLLENETTE,
Public Relations Officer,
London, W1 CENTRAL LAND BOARD.

[We thank Mr Collenette for his clarifying letter; as he rightly says the references in our 'Weekly Note' of August 18th to the £300 million fund were incorrectly printed as £3 million. – Editor.]

Orthodox Profits

SIR, – However belatedly, I must congratulate Mr Jeffery English on his crisp presentation called 'Another view on orthodox profits' in your issue of August 4th. With him I entirely agree that established accounting methods already exist for dealing with the inflation problem. It is a matter of willing recognition to the sources of the generic profits, which Mr English instanced with

	Fickles
(*a*) Profit earned by operations	7,625
(*b*) Profit due to inflation	9,325
	£16,950

'Splitting' the total of profits in this way has, in effect, been suggested by Mr English as an intermediate qualification to realism for those accountants who are unwilling to face the problem squarely. Seriously, I put the question, can management have any more value for the services of an accountant who produces an unattributed total for profits, than an audience has for the productivity possibilities of a conjuror who produces a string of coloured scarves without disclosing where they came from?

Mr H. A. Briscoe's opposition to the realistic view is on the moral ground of unfairness to the rest of the community (at home, of course – those abroad don't matter). But, can he dodge the necessity for attribution in published accounts: is it not the accountant's professional job to *account*, to management and to all outsiders, for how the surplus of 16,950 fickles arose? and is an accountant fair-minded who tells company and country that its income is so much and so much, when it may not consume that amount and be as well off at the end of the period as it was at the beginning? Movements in wealth cannot be measured by comparing totals of differently esteemed units of currency.

Debenture and preference holders might get more rope at a shilling a yard if the shopkeeper used an elastic rule; but would business be fairer or more expeditious if official recognition were secured for measurements made with 'yard' rules whose expansion was limited to the multiple three?

Yours faithfully,
Dublin. A. PAKENHAM-WALSH.

SIR, – As a man who's 'been talking prose all his life without knowing it' (see Mr Briscoe's letter, issue dated August 11th) but has now been awakened, I've decided to reform:

If you've got two pounds (Australian) and a pound for straying dogs,
Six pounds sterling, four Egyptian pounds, and 14 lb. of logs,
Would you truly, could you fairly, say you've twenty-seven pounds?
You would, you know. In Wonderland such nonsense knows no bounds.

We take our mid-Victorian £'s, as golden as the sun,
And add them to the trash we use in 1951:
We use a rubber yardstick, then pretend the yards all match,
'Til our balance sheet resembles something out of Colney Hatch.

We charge depreciation on our 1930 plant,
And we show our stocks as doubled (though, of course, you know, they aren't);
So we show a great big profit, and we've had a record year,
But we've got to borrow from the bank to stay just where we were.

For we've got a world of money, and we've got a world of goods,
And it seems that we can see the trees: but how about the woods?
For a client's no mere theorist, and he violently reacts
To a world of happy day-dreams which ignores the world of facts.

Reprise

Hey nonny! Sing of water, sing of water wet as wet.
We discover, to our horror, that it's stuff we really get,
And that ducks who use it tend to sink and disappear from view.
Historical accounting lets *your* assets vanish, too.

Yours faithfully,
Bournemouth. JEFFERY ENGLISH.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

D'Avigdor-Goldsmid *v.* C.I.R.

In the Court of Appeal – July 16th, 1951

(Before THE MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice JENKINS and Lord Justice BIRKETT)

Estate-duty – Life assurance policy – Premiums by deceased – Death more than five years before – Change of beneficiaries – Whether kept up for benefit of a designated donee – Whether interest accruing or arising on deceased's death – Customs and Inland Revenue Act, 1881, *Section* 38 – *Customs and Inland Revenue Act,* 1889, *Section* 11 – *Finance Act,* 1894, *Sections* 2 (1) (*c*), 2 (1) (*d*), 13, 15 – *Finance* (1909–10) *Act,* 1910, *Section* 59 (2) – *Finance Act,* 1939, *Section* 30.

In 1904 the deceased took out a policy on his own life, and paid the premiums. In 1907 he made a marriage settlement which included the policy, and he covenanted to pay the premiums. The deceased's interest under the settlement was a protected life interest, and subject to a rentcharge for his wife the trust fund was limited to the first and other sons of the marriage in tail male. In 1928 a private Act of Parliament was passed whereby the deceased was empowered to convey his life interest to the person who was next entitled in remainder on his death. This power was exercised in 1930 by a disentailing deed whereby the plaintiff, the deceased's son, with the consent of the deceased, conveyed the trust property to the trustees freed from the deceased's life interest and from all subsequent limitation.

By a deed of resettlement of the same date, the trustees were to hold the policy as a part of the trust fund, and by a deed of appointment in 1934 the policy was thenceforth held by the trustees in trust for the plaintiff absolutely for his own use and benefit, and discharged from the trusts declared by the resettlement. The plaintiff, therefore, then became the absolute beneficial owner of the life policy. On the death of the deceased in 1940 the plaintiff received the sum assured plus bonuses.

Thirty-three premiums were paid on the policy, and the last six were paid by the plaintiff. More than five years elapsed between the day on which the policy was appointed to the plaintiff absolutely and the day of the deceased's death.

The Inland Revenue contended that estate duty was payable either under Section 2 (1) (*c*) of the Finance Act, 1894, on the basis that the deceased had kept up the policy for the benefit of the plaintiff as the donee, or under Section 2 (1) (*d*) of the same Act on the basis that a beneficial interest accrued or arose on the deceased's death.

Held, that Section 2 (1) (*c*) of the Finance Act, 1894, did not apply, for, as the plaintiff was within the consideration in his parents' marriage settlement, the disposition was not a voluntary one; but that Section 2 (1) (*d*) applied, as if a policy has been so disposed of that on his death the policy money becomes payable for the benefit of another person, the conditions of that provision have been satisfied.

Lamson Paragon Supply Co Ltd *v.* C.I.R.

In the High Court of Justice (Chancery Division) July 13th, 1951

(Before Mr Justice HARMAN)

Profits tax – Distribution out of sum not assessable to tax – Distribution of shares in another company – Whether a dividend – Period in respect of which dividend paid – Finance Act, 1937, *Section* 19 – *Finance Act,* 1946, *Section* 44 – *Finance Act,* 1947, *Sections* 30, 35, 36.

In March 1947 the company decided to distribute to its members shares in another company of a nominal value of £125,000. A resolution was accordingly passed that a special dividend of 5*s* a share should be paid on the ordinary shares, and that the dividend should be satisfied by a distribution of the shares in the other company. The fund out of which the £125,000 was taken had been built up from transactions on capital account, and the dividend was not subject to sur-tax in the hands of the shareholders.

A distribution charge was imposed in respect of the £125,000. The company's accounting periods ended on January 31st.

The Special Commissioners decided that there had been a distribution of assets in kind, and not a distribution of a dividend; and that, as the distribution was not expressed to be paid for the period ended January 31st, 1947, it was subject to the distribution charge in relation to the period in which it was paid.

It was contended on behalf of the company (*a*) that the amount of tax imposed as a distribution charge was an additional tax over and above the profits tax at the rate of 10 per cent; (*b*) that this additional tax could not apply to a sum which was paid out of a fund which was not subject to profits tax or income-tax; (*c*) that there was evidence that the distribution was in respect of the period ended January 31st, 1947.

Held, (*a*) the amount imposed by way of a distribution charge was not a separate tax, but an additional amount of profits tax payable in consequence of the withdrawal of non-distribution relief; (*b*) that the nature of the source from which the distribution had been made was immaterial; (*c*) that as the distribution was a dividend which was not expressed to be payable in respect of a specified period, it had to be treated as one for the accounting period, ended March 31st, 1948, in which it was paid.

In re Lyons

In the High Court of Justice (Chancery Division)
July 11th, 1951
(Before Mr Justice ROMER)

Income-tax – Tax-free annuity – Repayment of tax to annuitant under Income Tax Act, 1918, Section 34 – Whether annuitant should pay to trustees a sum equal to tax paid on account of his annuity – Income Tax Act, 1918, Section 34 – Finance Act, 1926, Section 33.

The testator bequeathed to his son an annuity of £10 a week, and there were gifts over on the son's death. In 1946–47 the son's taxable income consisted of the gross annuity of £945 9*s* 1*d*, wife's earned income £97, and other income £43 11*s* 11*d*, making an aggregate of £1,086 1*s* 0*d*. In that year the trustees paid £425 9*s* 1*d* as tax on the annuity, and £4 10*s* 0*d* as tax on a dividend. For the same year the son obtained repayment of £429 19*s* 1*d*, under Section 34 of the Income Tax Act, 1918, on account of a trading loss of £1,027.

In 1947–48 the son's taxable income was the gross annuity of £963 12*s* 9*d*, wife's earned income £242 10*s* 0*d*, other income £12 10*s* 0*d*, less bank interest £28 18*s* 0*d*, and taxed charges £37 0*s* 8*d*, making a net aggregate income of £1,152 14*s* 1*d*. In that year the trustees paid £433 12*s* 9*d* as tax on the annuity, and £5 12*s* 6*d* as tax on a dividend. For the same year the Inland Revenue repaid to the son £439 5*s* 3*d*, less £16 13*s* 4*d*, i.e. £422 11*s* 11*d*, under Section 34 aforesaid on account of a trading loss incurred by the son of £1,152.

The trustee took out a summons to decide whether the son was liable to account to the trustees, wholly or partly, for the sums recovered by him under Section 34.

Held, that the son was liable to account to the trustees for the £429 19*s* 1*d* and £422 11*s* 11*d*, as representing the tax paid in respect of his annuity for the years in question.

R. *v*. Morleston and Litchurch Commissioners; *ex parte* G. R. Turner Ltd

In the High Court of Justice (King's Bench Division)
July 27th, 1951
(Before the Lord Chief Justice (Lord GODDARD), Mr Justice HILBERY and Mr Justice ORMEROD)

Income-tax – Appeal – Decision announced in favour of applicant – Stated case – Contrary decision expressed – Discussion between General Commissioners and Inspector in absence of applicant – Whether further hearing possible to alter decision – Costs – Income Tax Act, 1918, Section 149.

After hearing an appeal, the General Commissioners retired to consider their decision, and on reassembling the Clerk to the Commissioners read out a decision in favour of the applicant and the Inspector expressed dissatisfaction. A stated case was required by the Inland Revenue, and the General Commissioners' decision expressed therein was in favour of the Crown. Affidavits were filed by the four General Commissioners, including the one Commissioner who dissented, stating that their decision was to dismiss the appeal, and that they could not hear what the Clerk said when announcing the decision.

When the difficulty about the decision became known to the General Commissioners, they sent for the Inspector, and discussed the matter with him in the absence of any representative of the applicant. They decided to state a case, and to hold a further hearing of the appeal. The assessments were never formally discharged.

Held, (1) that the decision announced by the Clerk was not the decision of the General Commissioners, (2) that the General Commissioners ought not to have discussed the case with the Inspector in the absence of anyone representing the appellant, (3) that the General Commissioners had power to alter their decision, (4) that as the General Commissioners had not been guilty of moral misconduct, costs should not be given against them.

Wildbore *v*. Luker

In the High Court of Justice (Chancery Division)
July 25th, 1951
(Before Mr Justice ROXBURGH)

Income-tax – Trade – Deduction – Rates – Premises used partly for trade and partly as living accommodation – Whether deduction limited to two-thirds of total rates – Income Tax Act, 1918, Schedule D, Cases I and II, Rules 3 (a), (b), (c).

The appellant was the tenant of a public-house consisting of six rooms, of which four were used for living accommodation and two for the public-house business. The appellant paid a rent of £120 a year and he also had to pay the rates. Prior to the year ended March 31st, 1947, the rateable value of the whole public-house was £72, but it was increased to £155.

This increase resulted from increases in the sales of beer, and no part of it was on account of any increase in the value of the living accommodation. The rates were 21*s* 6*d* in the pound.

The appellant was assessed for 1949–50 on the basis of his profit and loss account for the period ended July 16th, 1948. No question arose as to the deduction for rent. The amount of rates paid for that period was £162, and for previous periods they were £77. The respondent declined to allow more than two-thirds thereof, namely, £108, to be deducted on account of rates; but the appellant claimed that the correct amount was £136, made up of £51 ($\frac{2}{3}$ × £77) plus £85 (£162 — £77).

The General Commissioners decided that the case was governed by Rule 3 (*c*) of Cases I and II of Schedule D; and that the amount deductible was two-thirds of the total rates, namely, £108.

It was contended on appeal (*a*) that Rule 3 (*c*) was concerned only with rent or annual value, and

did not apply to rates; (*b*) that on the evidence none of the increase in the rates should be attributed to the appellant's trading, and that the £136 should be deducted; (*c*) alternatively, that the case should be remitted to the General Commissioners.

Held, (*a*) that the case was not governed by Rule 3 (*c*) of Cases I and II of Schedule D; (*b*) that the case should be remitted to the General Commissioners for consideration *de novo*.

Union Corporation Ltd *v*. C.I.R.
Johannesburg Consolidated Investment Co Ltd *v*. C.I.R.
Trinidad Leasehold Ltd *v*. C.I.R.

In the High Court of Justice (Chancery Division)
July 2nd, 1951
(Before Mr Justice HARMAN)

Profits tax – Exemption from distribution charge – Company resident in United Kingdom – Whether ordinarily resident abroad – Whether relief applicable – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 12 – *Finance Act*, 1937, *Sections* 19, 20 – *Finance Act*, 1946, *Section* 44 – *Finance Act*, 1947, *Sections* 30, 31, 39.

All three companies claimed exemption from distribution charge to profits tax on the ground that, though they were ordinarily resident within the United Kingdom, they were also ordinarily resident outside the United Kingdom, the first two companies in South Africa, and the third company in Trinidad; and that they were, therefore, exempt by virtue of Section 39 (1) of the Finance Act, 1947.

The South African companies were incorporated in the former South African Republic (now the Transvaal Province). The companies adopted new articles of association under the procedure in the Companies Act, 1926 (South Africa), and the new articles were registered at Pretoria, in accordance with Section 17 of that Act, and they are the articles now in force. The registered office of each company was in Johannesburg, this being obligatory under the last-mentioned Act. Of the ten directors, five resided and performed their duties in the United Kingdom, and five resided and performed their duties in South Africa. The board meets in London. Certain of the directors held wide powers of attorney.

The activities of the companies were carried on partly in South Africa and partly in England. The South African activities consisted of the management and development of gold mines, and the English activities consisted mainly of the buying and selling of shares.

All general meetings were held in South Africa. The accounts were made up and audited in South Africa, and were drawn up in South African currency, United Kingdom currency being adopted at par. Dividends were distributed from South Africa or England according to the address of the shareholder, and transfers of shares were registered in Johannesburg or London. Share certificates were issued according to where the instrument of transfer was lodged. The register of members was kept in Johannesburg, as required by Section 25 of the Companies Act, 1926 (South Africa). The common seal was kept in Johannesburg, and the official seal in London. The great preponderance of employees was in South Africa.

The Trinidad company was incorporated in the United Kingdom, and the directors held their meetings here. All general meetings were held here, and the common seal was kept here. The accounts were prepared and audited in the United Kingdom. The company's trading activities took place in Trinidad, where it operated oil wells on a large scale, and where all its employees were, except the staff of the London office. There were no trading activities in the United Kingdom except those connected with the control of the Board.

The Special Commissioners decided (*a*) that Section 39 (1) of the Finance Act, 1947, applied to any company which was ordinarily resident both outside and inside the United Kingdom; but (*b*) that none of the companies was ordinarily resident otherwise than in the United Kingdom.

Held, (*a*) that Section 39 (1) of the 1947 Act applied only to a company which was ordinarily resident abroad, and was not ordinarily resident within the United Kingdom; (*b*) that (if it had been necessary to decide the point) the two South African companies were ordinarily resident in South Africa as well as in the United Kingdom; but that the case of the Trinidad company would have been remitted to the Special Commissioners for further consideration.

Bentleys, Stokes & Lowless *v*. Beeson

In the High Court of Justice (Chancery Division)
July 27th, 1951
(Before Mr Justice ROXBURGH)

Income-tax – Solicitors – Entertainment expenses – Services rendered to clients at lunches – Whether cost of lunches deductible – Income Tax Act, 1918, *Schedule D, Cases I and II, Rule* 3 (*a*) – *Section* 149 (1) (*d*).

The appellant firm consisted of two partners carrying on the profession of solicitors in the City of London. It was the practice of the firm for the partners to take clients to lunch and discuss the clients' business there, and for the cost of the lunches to be charged in the firm's profit and loss account. This practice was confined to existing clients, and only the client was present at the lunch with the partner who attended to that client's business. This practice was convenient to the clients and to the partners, for the clients were usually free only at lunch time, and the partners were able to devote the remainder of the day to the routine work of the office. The Professional Purposes Committee of the Law Society considered that the entertainment of existing clients was not unprofessional. The advice

given to clients at lunch was charged for in the normal way, but the cost of lunches was not included in the charge to the clients.

The Special Commissioners were 'unable to say that it was necessary for the purposes of transacting the business in hand or for the profession generally', to provide meals or other refreshment on these occasions. They were unable to conclude that the money spent on entertainment of clients was expended solely for the purposes of the profession, 'and were entirely divorced from the element of hospitality and the relationship of host and guest'.

Held, that there was no evidence to support these findings; that although the partner had the benefit of a meal gratuitous to him, that circumstance was not a sufficient reason for holding that the lunches were not business transactions; and that the cost of the lunches was a deduction in computing the firm's profits for tax purposes.

St Aubyn Estates Ltd *v.* Attorney-General

In the House of Lords – July 12th, 1951

(Before Lord SIMONDS, Lord NORMAND, Lord OAKSEY, Lord RADCLIFFE, and Lord TUCKER)

Estate duty – Estate held by tenant for life – Sale of landed estate by tenant for life to company – Direction by tenant for life and another appointor to trustees to sell investments representing capital moneys to the company – Prices satisfied by allotments of shares – Appointment of part of sale money to deceased absolutely – Sum used by deceased to pay for shares in the company – Joint appointment that trustees should accumulate income of settled property for specified period – At end of specified period property to be held for such numbers of a class of persons as deceased should appoint – Subsequent loans by company to deceased – Whether disposition of life interest with non-retention of any benefit by disponor – Whether transfer of assets in a non-fiduciary capacity to company – Customs and Inland Revenue Act, 1881, *Section* 38 (*a*) *– Customs and Inland Revenue Act,* 1889, *Section* 11 *– Finance Act,* 1894, *Sections* 1, 2 (1) (*b*) *– Finance Act,* 1930, *Sections* 35, 39 *– Finance Act,* 1940, *Sections* 43, 46, 47, 51, 56, 58, 59.

In 1878 the first Lord St Levan and the deceased disentailed the family estates, and resettled them to the use of Lord St Levan during his life and after his death to the deceased for life with remainders over. They also executed deeds of appointment by means of which and of subsequent deeds, and in consequence of certain deaths, the deceased and P. were the appointors.

On March 21st, 1927, the company was incorporated as a public company with an authorized capital of 150,000 preference shares and 50,000 ordinary shares of £1 each. On March 23rd, 1927, the deceased and P. by deed poll varied the powers of investment under the resettlement of 1878 so as to authorize investment in the debentures or shares of the company. The deed poll also authorized the deceased as tenant for life to sell any part of the land comprised in the resettlement in consideration wholly or partly of a capital sum payable by instalments.

On March 24th the deceased as tenant for life entered into an agreement with P. and the company whereby (1) the deceased was to sell all the landed property subject to the resettlement to the company; (2) the deceased and P. in exercise of their joint power of appointment were to direct the trustees to sell investments representing capital money under the resettlement, and also all the equitable shares, interests, and rights then subsisting in the land comprised in the resettlement; (3) the trustees were to carry the sale of the investments, shares, interests and rights into effect by way of investment or variation of investment of capital money, or investments representing capital money, under the Settled Land Act, 1925; (4) the consideration for the sale of the landed property was to be £1,117,000, and was to be satisfied, as to £367,000, by payment to the trustees in cash, and as to £750,000, by the payment thereof to the trustees in cash in forty half-yearly instalments; (5) the consideration for the sale of the investments was to be £573,000 to be paid to the trustees; (6) the consideration of the sale of the equitable shares, interests and rights was to be £10,000 to be paid to the trustees. The total of the aforesaid sums of £367,000, £573,000 and £10,000 is £950,000. On the same day the company allotted 100,000 preference shares to the deceased and 50,000 ordinary shares, at a premium of £16 a share, to the trustees of the resettlement.

On March 25th, 1927, the deceased and P. entered into an agreement with the trustees whereby the deceased and P. in exercise of their joint power in that behalf appointed that all the moneys and investments subject to the resettlement should devolve and be held as if they were capital money, or investments representing capital money comprised in the resettlement; and that all such capital money or investments should be invested in or exchanged for ordinary shares of the company.

On March 28th, 1927, the deceased and P. jointly directed and appointed that £100,000, part of the £950,000 then in the hands of the trustees, and also the £750,000 payable by instalments, should be held in trust for the deceased absolutely, instead of for his life only. On or about the same day the trustees paid the £100,000 to the deceased by means of a cheque on their bank account, and the deceased used that sum to pay for the 100,000 preference shares in the company. The trustees paid £850,000 to the company in return for an allotment of 50,000 ordinary shares at a premium of £16 a share. At the final stage, therefore, the assets, subject to the resettlement, consisted of the 50,000 ordinary shares alone.

On March 29th, 1927, the deceased and P. made appointments so that, among other things, the trustees were directed to accumulate the income of the settled property for twenty years subject to determination earlier in certain events. During the

twenty years (subject to determination) no beneficiary under the resettlement was to be entitled to possession of the settled property, and on the expiration of the twenty years (or earlier determination) the settled property was to be held in trust for such issue of the first Lord St Levan as the deceased should appoint, and upon other trusts in default of and subject to any such appointment. The trustees were directed to use their voting powers on the ordinary shares of the company to prevent the distribution of dividends exceeding £2,000 a year, and to cause the income to be capitalized in a certain way; and the deceased and P. released their joint power of appointment.

In 1933 and 1936 the company made certain loans to the deceased, on the terms that repayment of the loans and interest was not to become due until two years after the deceased's death.

The Crown contended (1) that the deceased's life interest had determined in such a way that Section 43 (1) of the Finance Act, 1940, applied, unaided by Section 56 (2); (2) that, alternatively, by virtue of Section 56 (2) there was a disposition or determination of the life interest, so that Section 43 of the Act applied in accordance with the statutory hypothesis which the former section directed; (3) that, alternatively, Section 46 of the Act applied in that the deceased had transferred the settled estate to the company; (4) that the loans made by the company to the deceased in 1933 were caught by Section 47 of the Act.

Held, (1) that the claim under Section 43 (1) of the Finance Act, 1940, failed because Lord St Levan retained no benefit in the life interest that he surrendered in a part of the settled property;

(2) that the claim under Section 43 aided by Section 56 of the Act also failed, as the latter section did not affect the absence of any retention of interest as aforesaid;

(3) (Lord Radcliffe and Lord Tucker dissenting) that the payment of the £100,000 to the company for the preference shares was not a transfer of property within Section 46;

(4) (Lord Simonds and Lord Oaksey dissenting) that, by the combined operation of Section 46 and Section 58 (2), there was by reason of the deed of appointment of March 23rd, 1927, a transfer of the investments, and of the equitable interests in land, to the company, and not in a fiduciary capacity;

(5) that the transfer of the land to the company was in a fiduciary capacity, and was therefore outside Section 46;

(6) that the sums lent by the company to the deceased during the last three years of his life were benefits within Section 47 of the Act;

(7) that the appeal and the cross-appeal be allowed (the latter affecting only the investments and the equitable interests in land).

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Results of June 1951 Examinations

SUMMARY OF RESULTS

Candidates	*Preliminary*	*Intermediate*	*Final* Sections I & II	*Final* Section I only	*Final* Section II only	*Corporation Final*	*Total.*
Passed with Honours	1	6	5	6	5	–	23
Passed ..	29	301	23	256	173	1	783
Failed ..	20	698	70	259	226	–	1,273
Disqualified	–	–	1	–	–	–	1
Total sat ..	50	1,005	99	521	404	1	2,080

N.B. – Of the candidates who sat for the Final, Sections I and II, 24 candidates satisfied the examiners in Section I only.

FINAL EXAMINATION

SECTIONS I AND II

(In Order of Merit)

Bence, R. M. R., *Birmingham* (*First Place*).
2. Whithear, P., *Croydon*.
3. { Armitage, B. H., *Leeds*.
Brentnall, Miss E. M., *Warwick*.
Humphris, F. C., *Esher*. }

(In alphabetical order)

Austin, F. B., *Long Eaton*. Baldwin, K. W., *Berkhamstead*. Bayliss, G., *Kings Norton*. Blanchard, B. J., *Liverpool*. Blount, J. A., *Wolverhampton*. Cooper, G. W., *Leeds*. Day, G. D., *Leigh-on-Sea*. Drury, G., *Cottingham*. Dunwell, A., *Levenshulme*. Durbridge, D. A. W., *Maidstone*. Etherington, J. W., *Bexleyheath*. Gutteridge, J. E., *Leicester*. Harrison, N. L. R., *Coventry*. Keen, T. W., *New Eltham*. Repton, G. C. T., *Cobham*. Rooney, F., *London*. Sellers, G. A., *Harrow*. Spence, A., *Belfast*. Starke, C. B., *Knowle*. Thompson, G., *Hazel Grove, Cheshire*. Tiernan, B. S. F., *Dublin*. Weller, G. T., *Oxford*. Westley, G. W., *Chilwell*.

70 candidates failed to satisfy the examiners and 1 candidate was disqualified. Of those who failed the following were successful in Section 1 only:

Aitkenhead, C., *London*. Bacon, D. E., *Forest Hill*. Barrow, M., *Milton*. Batt, F. C. J., *Rutherglen*. Bowron, L., *Durham*. Garland, P. G., *Drumcondra*. Goodwin, R., *Saffron Walden*. Ibbotson, J. E., *Newcastle on Tyne*. Israel, C. I., *Cricklewood*. King, W. R., *London*. Langton, R. L., *Leicester*. Leahy, J. A., *Glasnevin, Dublin*. Lyons, B. A., *Wisbech*. Marshall, H. S., *Leeds*. Meehan, M., *Tralee*. Phillimore, J. A., *Sutton*. Simpson, H. C., *Blundellsands*. Smith, W. H., *Birmingham*. Staines, J., *Enfield Highway*. Thomas, S. C., *Knowle*. Tommey, F. A., *Luton*. Warrilow, G. A., *Erdington*. Webb, R. A., *London*. Wild, F., *Bradford*.

SECTION I ONLY

(In order of merit)

Jones, C. S., *Bristol* (*First Place and Prize*).
2. { Moxley, F. K., *Hull*.
Smith, J. C., *London*. }
3. { Plank, R. B., *London*.
Ringwood, W. E., *Maidenhead*.
Weaver, T. C., *London*. }

(In alphabetical order)

Abrey, N. H., *Haywards Heath*. Alcorn, I. S., *Edinburgh*. Alexander, F. N., *Calne*. Allman, W. H., *East Finchley*. Andrade, H. H., *London*. Andrew, M. V., *Norwich*. Atkinson, D. G., *Brentford*. Atkinson, J. C., *West Bollington*. Axford, W. A., *Chelsea*. Ballard, M. H., *Hove*. Bannerman, D. B., *Prestwick*. Banton, T. A., *Lancaster*. Barker, J. V., *Watford*. Battisson, R. L., *Erith*. Bayliss, W. E., *Highbury*. Beckett, S., *Farnworth, Nr.*

Bolton. Beckwith, R. F., *Twickenham.* B l, W. H., *Hebbern.* Bibby, G., *Ormskirk.* Bishop, R. A., *London* Bowen, B., *Skewen, Glam.* Bowns, H., *Sheffield.* Boyask, S., *St ney.* Bristow, J. O., *London.* Brown, A. R., *Dundee.* Brown, A W., *Ruislip Manor.* Brown, R. F., *Seven Kings, Essex.* Brundle, t, A., *Colton, Staffs.* Buchanan, P. F., *Bearsden.* Bullivant, C., *ther Edge, Sheffield.* Burcher, F. R., *Heworth, York.* Burrows, J., *Wishaw.* Button, P. G., *Sheffield.* Campbell, H. S. G., *Grot Park.* Cannon, N., *Wisbech.* Cardoso, F. B., *Leeds.* Cartma , J. F., *Hampton.* Caskey, J. S. B., *Guildford.* Chalk, P. D. J., *Witham.* Cheeseman, S., *London.* Chisholme, W. O., *Hawick.* C itty, R. L., *Bedford Hill.* Clark, J. E., *Warlingham.* Clarke, J., *ublin.* Clarke, R. H., *Standish, Nr. Wigan.* Clarkson, Miss I. K., *Cheltenham.* Cockburn, J., *Portobello.* Collier, W. J. R., *oke Lacey, Hereford.* Cooper, E. A., *Derby.* Cowan, W. W., *Edin urgh.* Cowen, G. V., *Tring.* Cowley, G. S., *Newark-on-Trent.* Co head, B., *Kidbrooke.* Crowe, G. P., *Chelmsford.* Cummings, N J., *West Worthing.* Cummins, E. A., *Sale, Manchester.* Curbi lley, A. S., *Welling.* Cushion, A. J. E., *Leyton.* Cust, R. A., *Brix m.* Dainow, B. E. I., *Edgbaston.* Dale, Miss J. I., *Catford.* Danc ster, P., *Manchester.* Darn, A., *Stoke-on-Trent.* Dash, E. T , *Thornton Heath.* Davies, P., *Wilmslow, Manchester.* De Lu , A. G., *Edmonton.* Dempster, S. G., *Gillingham.* Dennis, F. ., *Wallasey.* Dixon, H. R., *Newcastle on Tyne.* Dobbs, G., *irehampton, Bristol.* Dodd, G. H., *Rhos, Nr. Wrexham.* Dougl , J. E., *Dumbarton.* Douglas, R., *Bankhead, Rutherglen.* Dow, G. F., *Acton.* Dunworth, A. V., *Hayes.* Dyer, P. F., *Thorn n Heath.* Eccleston, H. R., *Caverswall, Stoke-on-Trent.* Edge, R O., *Rednal, Birmingham.* Egan, A. R., *Teddington.* Elkin, J. C., *roydon.* Emmett, L., *Stockport.* Evans, P. W., *Cwmbach, Glam.* Fa rer W., *Macclesfield.* Fettess, A. W., *Deptford.* Fil, E. S. E., *ondon.* Filby, P. E., *Kidderminster.* Fisher, K. A., *Birmingham.* F sher, N., *Smethwick.* Fosdike, Miss D. L., *New Cross.* Fran s, T. R., *Swansea.* Gaines, D. D., *Fulham.* Galloway, C. ; *Monifieth, Angus.* Godfrey, E. D., *London.* Godfrey, H. J., *Smethwick.* Gordon, F., *Belfast.* Gouldsbrough, J., *Sheffield.* Gr dy, G. W., *Norbury.* Grant, E. A., *Chislehurst.* Greaves, E. A. *Birmingham.* Green, D. W., *Ilford.* Green, E., *Hayes.* Griffiths H. T., *Birmingham.* Halfacre, R. A., *London.* Hamadto, A. H. M., *Khartoum.* Hamilton, J. D. M., *Paisley.* Hammerm , H. J., *Sydenham.* Hansford, G. G., *Canton, Cardiff.* Harris, L. R., *Northampton.* Harrison, R. F., *Tadworth, Surrey.* H vey, E., *Tonbridge.* Harwood, H., *Sidcup.* Haslehurst, R. W. I ; *Ilford.* Hassall, H., *Firswood, Manchester.* Healy, A. C., *Bal m.* Henry, W. M., *Anfield, Liverpool.* Hillmann, I., *London* Hopping, M. C., *Southgate.* Howlett, R. F., *Guernsey.* Huds a, J. A., *Cross Gates, Leeds.* Hughes, J. R. A., *Newcastle on Tyn* . Hunt, E. G., *Penn, Wolverhampton.* Jarrold, K. H., *Norwi h.* Johnson, A. D., *Anerley.* Johnson, N., *Oldham.* Jones, C. R., *Wallasey.* Jones, R. G., *Fforestfach, Glam.* Jones, S., *Wyt enshawe, Manchester.* Jones, W., *Ilford.* Jones, W. D., *Penygraig, Rhondda.* Jordan, D., *Chesterfield.* Kerridge, G. W., *South Ching ord.* King, W. E. R., *Neath.* Kingham, B. J., *Leigh-on-Sea.* Ki y, R. W., *Kirkham, Nr. Preston.* Knights, F. G., *Pinner.* K ox, W. T., *Paisley.* Lacey, Miss M. J., *Whetstone.* Lancheste Miss E. E., *South Norwood.* Landau, M., *London.* Lankshe , H. J. W., *London.* Latham, E., *Hove.* Lawn, G. B., *Berwick-on-Tweed.* Lawton, S., *Stoke-on-Trent.* Layton, D. F., *Birmingha* Lear, R. S., *Kingswood, Bristol.* Ledden, S. W., *Chertsey.* Le- Duc, A. A., *Willesden.* Lessels, D., *Palmers Green.* Lewis, Miss D. *London.* Lewis, J. E., *Birmingham.* Lomax, J. J., *Liverpool.* L ord, E. H., *Leyton.* Lowe, J., *Sheffield.* Lumley, F. J., *H burn, Co. Durham.* Macaree, R., *Newcastle on Tyne.* Machir C. J., *Shrewsbury.* Mackenzie, G., *Dundee.* Manton, R. M., *St Albans.* Marriott, E., *Leicester.* Mason, C. A., *Tooting Junction.* M atheson, H., *Grangemouth.* Maynard, G. F., *Eltham.* Medd, F., *Malton, Yorks.* Medlicott, S. G., *Birmingham.* Menday, R. L., *Muswell Hill.* Metcalfe, T. C., *Bradford.* Miller, A. D., *ublin.* Millson, G. J., *Blackheath Hill.* Moir, J. F., *London.* Morid, H., *London.* Moody, R. A., *Grimsby.* Moore, A. M., *Al aston, Derby.* Morris, L. W., *Dalston.* Mouland, C. E. C., *Bour emouth.* Moy, H. C., *King's Lynn.* Nicholls, S. G., *London.* Ni holson, K., *Bromley.* Nightingale, J. H., *Birmingham.* Nixon, C., *West Dulwich.* Osborne, C. H., *Bromley.* Osborne, G. F , *London.* Ososanya, Z. O., *West Kilburn.* Parker, J. T., *Fr hwater Bay, I.O.W.* Parkes, J. W., *Ward End, Birmingham.* Pate ian, T. G., *Walworth.* Pollard, S., *Brixton.* Press, R. L., *Willesde* Primrose, S. M. M., *Stirling.* Prue, L. G., *Chesterfield.* Rees, J M., *Treorchy, Glam.* Restall, J. A., *Southsea.* Restarick, D. W. *Wimbledon.* Richards, G. L., *Penarth.* Richards, N., *Bilston, Staffs.* Ridley, J. E., *Hampstead.* Rimington, R., *Dagenham.* Ritchie, W. E. R., *Thornliebank, Renfrewshire.* Rivers, W. I., *St. John's Wood.* Robertson, D. W., *Halesworth, Suffolk.* Ro ers, W. E., *Northwich.* Rose, E. V., *Seven Kings, Essex.* Rowley H. A. T., *Braintree.* Roylance, J. S., *Market Drayton.* Scarlett J. J., *London.* Scott, H. A., *Bexley.* Sealy, G., *East Ham.* Sh w, E., *Hammersmith.* Shaw, J. K., *Sutton, Surrey.* Sheward J. T., *Handsworth, Birmingham.* Simms, I. I. H., *Streatham Hill.* Simons, G. J., *Hove.* Sizer, G. E., *Retford, Notts.* Skelly, T., *Phibsboro, Dublin.* Skipper, A. C., *Wood Green.* Smail, W. E. N., *Edinburgh.* Smith, A., *Wallasey.* Smith, A. D. L., *Stratford, London.* Smith, G. C., *Stonehouse.* Smith, G. H., *London.* Smith, K., *Carlton, Nottingham.* Smith, R., *Grimsby.* Sparks, C. D., *Whetstone.* Steele, F. C., *Earlsfield.* Stimpson, D. W., *Harringay.* Stinton, S., *St. Albans.* Stoll, L., *Stoke Newington.* Stone, W. T., *Forest Hill.* Sullivan, F. J., *Rotherhithe.* Supersad, S. M., *Glasgow.* Sutherland, M., *Parkstone.* Thomson, A. C., *Glasgow.* Tomlinson, A. S., *Crossgates, Leeds.* Tongue, C. N., *Solihull.* Trew, F. N., *Finchley.* Tribble, N. R., *Shooters Hill.* Turnbull, W., *Dundee.* Turnbull, W. E., *Wallasey.* Urry, R. J., *Hendon.* Vickers, F. R., *Greenwich.* Wadson, J. D., *Hammersmith.* Wakeling, S. T., *Leigh-on-Sea.* Walker, P. C., *Leamington Spa.* Walls, J., *Fairview, Dublin.* Walls, N. C., *Wigan.* Watson, C. H., *Abbey Wood.* Wells, M. T., *Rickmansworth.* Wetherall, C. E., *Ashford.* White, G. P., *Merton Park.* Wilkinson, H., *Whalley Range, Manchester.* Williams, R. J., *Ormskirk.* Wright, I., *Wrexham.* Wright, L. P., *Lewisham.* Wrightman, L., *Stoke Newington.* Yeadon, G. E., *Pinner.* Youngs, R. M., *Iffley, Oxford.* Zeller, K. R. G., *Waltham Cross, Herts.*

259 candidates failed to satisfy the examiners.

SECTION II ONLY

(*In order of merit*)

Vayro, P. J. T., *Milford, Notts* (*First Place and Prize*)
2. Roe, B. H., *Dartford.*
3. { Cracknell, H. A., *Dudley.*
Dean, V. J., *London.*
Pyatt, Miss B. E., London.

(*In alphabetical order*)

Addinall, L. M., *York.* Alvis, F. J., *Cheam.* Andrews, S. B., *Belfast.* Anstee, A. D., *Manchester.* Bailey, E., *Bridgwater.* Baker, A. D., *Harpenden.* Bamford, R., *Wombwell, Nr. Barnsley.* Barnett, H., *Chelmsford.* Bennis, S. S., *Hove.* Berg, I. L., *Stoke Newington.* Berry, G., *Chesterfield.* Bird, R. G., *Wisbech.* Birkill, W., *Tolpuddle, Nr. Dorchester.* Blackmore, F. R. G., *Redland, Bristol.* Bone, B. B. P., *Morden.* Bowen, A. W., *Tyseley, Birmingham.* Bristol, K. H., *Stockport.* Brooks, J., *Coventry.* Brown, A. J., *Hammersmith.* Brown, D. C., *Upper Tooting.* Buchan, J. F., *Edinburgh.* Burfoot, P. J., *Bromley.* Burge, M. L., *Streatham.* Bustin, J. R., *Rock Ferry, Birkenhead.* Butley, B., *Grantham.* Butler, F. X., *Thurles, Co. Tipperary.* Butterworth, J. K. H., *Beverley.* Byars, R., *Forfar.* Cainen, E., *Stockport.* Cameron, S. D., *Liverpool.* Carey, J. F., *Kings Park, Glasgow.* Cassidy, J. A., *Birstall.* Caunce, H., *Rainhill.* Clements, J. P. H., *East Dulwich.* Cooper, A. F. G., *London.* Cooper, S., *Putney Hill.* Cox, A. N., *Hounslow.* Cox, G. H., *Penzance.* Crayfourd, E. L., *Hendon.* Crossley, H., *Walsden, Todmorden.* Davis, A. E., *Luton.* Dean, G. T., *Newcastle.* Dellar, E. G. A., *London.* Dickinson, R. A., *Coventry.* Dillon, L. G., *Bolton.* Dobson, A. G., *Tottenham.* Draper, A. T., *Edinburgh.* Draper, N., *Lincoln.* Duffy, A., *Southport.* Ellis, R. M. N., *Ilford.* Evans, I. L., *Maenclochog, Pemb.* Farrant, A. R., *Walthamstow.* Fern, E. A., *Rugby.* Ford, A., *Henley-on-Thames.* Ford, E., *Hull.* Foster, R. W., *Litherland, Liverpool.* Gardiner, P., *Falkirk.* Gill, J. E., *Whetstone.* Gold, Miss J. I., *Finsbury Park.* Goodman, H., *London.* Grant, E. J., *Edgware.* Grice, J., *Newcastle on Tyne.* Hall, F. C., *Ashford, Middx.* Hallett, A. S., *Upper Norwood.* Hamblin, P. W., *Brislington, Bristol.* Hamment, D. E., *Crouch End.* Hanson, J., *Levenshulme, Manchester.* Harman, D. J. F., *Drayton Park.* Harrison, R. A., *Bitterne, Southampton.* Hart, P. G., *Bedford.* Harvey, G. F., *Stoke-on-Trent.* Haunton, E. W., *Hornsey.* Hayden-Patrick, *Waterford.* Haylett, A. W. L., *Orpington.* Holder, F. M., *Gosforth, Northumberland.* Houghton, T. R., *Mill Hill.* Hulock, J., *Bolton.* Jenkinson, J. D., *Rugby.* Jervis, R., *Surbiton.* Jewers, W. G., *Fairfield, Liverpool.* Jones, K., *Caereithin, Swansea.* Kaye, G. G., *Gildersome, Nr. Leeds.* Kirtley, N., *Halifax* Knight, C. J., *Palmers Green.* Knight, J., *Epsom.* Landon, N., *Wembley.* Lawson, R. M. A., *North Wembley.* Lay, J. W., *Brixton.* Lea, N. K., *St. Helens.* Leach, K. S., *Derby.* Legg, H. T. B., *Chingford.* Letts, D. W., *Kingston-on-Thames.* Lister, W. L., *Tolworth, Surbiton.* Lynch, L. A., *Bexleyheath.* MacCormac, M. J., *Dublin.* Martin, J., *Newcastle-on-Tyne.* May, G. C., *Rochester.* McAdam, J. P. A., *London.* McCabe, H. A., *Londonderry.* McCree, D., *Hull.* McDonald, Miss C. B., *Glasgow.* McDowell, J. C., *Belfast.* McNaney, W. F., *Dungannon.* Mellor, C., *Streatham.* Miller, H. A. P., *London.* Miller, Mrs I. O., *Caversham.* Miller, L., *Shepherd's Bush.* Morrison, A., *Glasgow.* Newey, D. J., *Coseley, Staffs.* Nichols, R. J., *Rugby.* Nicholson, E. F., *London.* O'Shea, T. B., *Cardiff.* Parker, T. T. C., *Douglas, I.O.M.* Paterson, K. R., *Glasgow.* Penman, W., *Edinburgh.* Pepper, H., *Stanningley, Leeds.* Perkins, R. F., *Cheam.* Pernyes, J. A., *Matlock.* Piercy, G. F. J., *Walthamstow.* Pilgrim, P. R.,

Pontefract. Pilkington, Miss F. C. M., *Hampstead.* Pollak, A., *Welwyn Garden City, Herts.* Prosser, W. R. C., *Hayes.* Pulley, C. H., *Wolverhampton.* Ratcliff, N. B., *Southgate.* Reddish, R. F. *Kendal.* Reed, H. L., *Kingston-on-Thames.* Reeve, K. J., *Huntworth.* Reinartz, J., *Bridgtown, Staffs.* Reynolds, G. E. F., *Clapham Common.* Rice, R. A., *Hammersmith.* Riddle, W. E., *Potters Bar.* Risius, R., *London.* Roberts, N., *Redditch.* Rogerson, G. E., *Kingston-on-Thames.* Rudd, H. F., *Leicester.* Sawbridge, H., *Southport.* Scholes, A., *Oldham.* Shannon, M. P., *Clarkston.* Shaw, H., *Hendon.* Sheppard, R. A., *Forest Hill.* Shill, J. H., *Cheltenham.* Shillitoe, R. J., *London.* Smethurst, J., *Oldham.* Smith, A., *St. Albans.* Smith, J., *Bolton.* Smith, S. L., *Shrewsbury.* Sparrow, E. H., *Slough.* Spriggs, G. W., *Birmingham.* Steel, A. *Harlesden.* Tames, B. W., *Ilford.* Teaz, E. L., *Palmers Green.* Thompson, G. N., *Mill Hill.* Thompson, L., *Bolton.* Torrence, E. M., *London.* Turnbull, F., *Bishop Auckland.* Varley, N., *Doncaster.* Waddington, E. D., *Bamber Bridge.* Walter, H. W., *Bladon-on-Tyne.* Walters, R. E., *Catford.* Warwick, B. J., *Walton-on-Thames.* Warwick, J. H., *Chelmsford.* Weir, D. T., *Chelsea.* Welsh, R. J. F., *Wimbledon.* Whines, S. G., *Harringay.* White, E. G. T., *Welling.* White, R. W., *Edmonton.* Wickhart, F. A., *London.* Wiggins, E. W., *High Wycombe.* Wild, G. J. J., *Watlington.* Wilding, H. J., *Balham.* Wilson, H., *Newton Heath, Manchester.* Wrigley, R., *East Dulwich.*

226 *candidates failed to satisfy the examiners.*

CORPORATION CANDIDATES

Dickie, C. S., *Glasgow.*

No candidate failed to satisfy the examiners.

NOTES AND NOTICES

Personal

MESSRS WILKINSON & MELLOR, Chartered Accountants, of Leadenhall Buildings, 1 Leadenhall Street, London, EC3, announce that as from September 1st they have admitted into partnership Mr JAMES WALTER BURNELL, A.C.A., who served his articles, and has been with the firm for many years. The name of the firm remains unchanged.

MESSRS T. & H. P. BEE, Chartered Accountants, of 13 Chapel Street, Preston, and of Fleetwood and Blackpool, announce that Mr JOHN S. WALKER, A.C.A., has been admitted as a partner of the firm as from September 1st, 1951.

MESSRS MIDWINTER & RHODES, Chartered Accountants, of Park House, Cirencester, and at Cheltenham, announce that their Cheltenham address is now 8 Imperial Square, Cheltenham. The telephone number remains 3192.

British Electricity Authority

APPOINTMENT OF A DEPUTY CHIEF ACCOUNTANT

Mr W. G. S. Bond, A.S.A.A., an assistant chief accountant on the staff of the British Electricity Authority, has been appointed a deputy chief accountant to the Authority. He succeeds Mr F. H. Grigsby, O.B.E., F.S.S., who has retired on reaching superannuation age.

Educated at Redruth, Cornwall, Mr Bond was employed for twenty-five years by Messrs Annan, Dexter & Co Ltd, Chartered Accountants, of London, where, during the latter years, he specialized in the audits of electricity undertakings. In 1941 he joined the organization of Edmundsons Electricity Corporation Ltd, and upon the establishment of the British Electricity Authority in 1948 was appointed chief assistant to Mr A. M. Scott, who was then a deputy chief accountant.

The Society of Incorporated Accountants and Auditors

The incorporated accountants' course is this year to be held at Gonville and Caius College, Cambridge, from the evening of Thursday, September 13th, until Tuesday morning, September 18th.

Speakers have been invited from outside as well as from within the membership of the Society, and the programme will include papers and addresses on the following subjects: 'Taxation: some practical problems', by Mr C. V. Best, F.S.A.A., and Mr J. A. Jackson, F.C.A., F.S.A.A.; 'Company law', by Mr Philip Randall; 'Some effects of inflation', by Dr R. F. Henderson, *Lecturer in Economics in the University of Cambridge*; 'Accounting principles', by Mr F. Sewell Bray, F.C.A., F.S.A.A.; 'Towards a profession of management?' by Mr Noel Hall, C.B.E., *Principal of the Administrative Staff College*; 'Auditing procedures in the U.S.A.', by Mr J. Harold Stewart, C.P.A., Boston, *Immediate Past President of the American Institute of Accountants*; 'Productivity, profits and prices', by Mr C. E. Sutton, A.S.A.A.

Manchester and Liverpool Students' Residential Courses

The Manchester and Liverpool Societies of Chartered Accountants are combining to run the fifth joint residential courses for Intermediate and Final students at Burton Manor College, Wirral, Cheshire.

Each course extends over four and a half working days; the Intermediate course assembles on Monday, October 1st, and disperses on Saturday, October 6th, on which date the Final course will assemble, dispersing on Thursday, October 11th.

Further information may be obtained from the joint honorary secretaries, Mr T. S. Andrew, A.C.A., 57 King Street, Manchester, 2, or Mr J. F. Holroyd, A.C.A., 1 & 3 Stanley Street, Liverpool, 1.

JOHN FOORD & COMPANY
56 VICTORIA STREET, LONDON, S.W.1 Telephone: Victoria 2002 (3 lines)
VALUERS AND ASSESSORS
OF WORKS, FACTORIES, Etc.

The Institute of Cost and Works Accountants

The second residential summer school of the Institute of Cost and Works Accountants assembled at St Catharine's College, Cambridge, on Monday last, and is in progress as this issue goes to press. About 100 members, divided into ten groups, are attending the school which promises to be as successful, and as beneficial to the participants, as last year's course.

The five papers which are being presented during the course are the subject of a contributed article elsewhere in this issue.

At the concluding dinner in Hall on Friday evening the principal guests are as follows:

Sir Alexander Aikman, C.I.E., C.A. (*Chairman, Electrical and Musical Industries Ltd and Powers-Samas Accounting Machines Ltd*); Captain C. R. Benstead, M.C., M.A., R.N.(Rtd.) (*Domestic Bursar, St Catharine's College*); Messrs K. E. Berrill, M.A. (*Fellow of St Catharine's*); F. Sewell Bray, F.C.A., F.S.A.A. (*Senior Nuffield Research Fellow in the Department of Applied Economics, Cambridge University*); D. J. Desmond, M.SC., M.I.E.E. (*Research Fellow in Engineering Production, Birmingham University*); Dr R. C. Evans, M.A. (*Fellow of St Catharine's*); Messrs J. Munro Fraser, M.A. (*Controller of Membership Services, National Institute of Industrial Psychology*); Z. A. Silberston, M.A. (*Kenwood Memorial Research Fellow, St Catharine's College*); J. A. Steers, M.A. (*President of St Catharine's; Professor of Geography, Cambridge University*); Alderman A. C. Taylor, M.A. (*Deputy Mayor of Cambridge*).

The Chartered Accountant Students' Society of London

The introductory courses of lectures for newly-articled clerks for the autumn session begin on September 14th at 5.15 p.m. in the Oak Hall of the Institute.

Each meeting lasts for two hours and consists of a lecture on accountancy followed by one on law. The first six accountancy lectures deal in general terms with basic subjects under such titles as 'What is a business?' and 'What is auditing?' and they are followed by a series of eight accountancy lectures designed to give newly-articled clerks a review of the background information from which book-keeping entries arise.

The legal lectures deal in summary form with the English judicial system, and with the branches of the law which are of immediate concern to accountancy students.

The object of the course is not to provide text-book knowledge, but to begin the wider education of articled clerks by giving them a practical background upon which they can build their studies.

Recent Publication

ISSUE, CONTROL AND REGULATION OF CAPITAL, by F. P. Randall, F.C.I.S. v + 117 pp. $8\frac{1}{2} \times 5\frac{1}{2}$. 12s 6d net. W. Heffer & Sons Ltd, Cambridge.

Other Publications Received

N.A.C.A. BULLETIN. (New York.) (August.)
WESTMINSTER BANK REVIEW. (August.)
REVISION OG REGNSKABSVAESEN. (Copenhagen.) (July.)
THE COMMERCIAL ACCOUNTANTS' QUARTERLY TAX BULLETIN (July.)
NATIONAL PROVINCIAL BANK REVIEW. (August.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 9th, 1876

Extract from 'Notes in Passing'

Public Accountant

Our readers may have noticed that the designation *public* accountant rarely appears in the columns of this journal. The exceptions are always the result of inadvertency, for we are of opinion that the qualifying adjective is ambiguous and unnecessary. Its application is usually sought to be justified on the ground that it discriminates between an accountant who is exclusively employed by a private firm of traders or a public company, and one who is employed by the public generally, and so makes a profession of his work. To us it seems that at present any such discrimination is wholly uncalled for, though it may have been desirable in the early days of the profession, when some of its members not only worked for particular employers during the day, but did general work for the public in the leisure of evening. Now, however, that the profession has in a measure become firmly established, we think the time has arrived when the use of the word 'public' in conjunction with 'accountant' may be advisedly discontinued. One might almost as justly speak of 'public' butchers or bakers. The occupation of an accountant is now as well known as that of a lawyer or doctor; and if at any time it should be necessary to prefix some distinguishing term, 'professional' is far more to the purpose, and much less open to the charge of ambiguity than 'public', though the general use even of this term we should regard as a redundancy. It is strange that while all the accountants whose announcements regularly appear in our front page describe themselves as 'public accountants', the society to which most of them belong is called 'The Society of *Accountants* in England'. The same feature is apparent in the style of all the other societies; and we strongly recommend individual members to follow the course which the collective wisdom of their associations has deemed it expedient to adopt.

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THE ROYAL COMMISSION: MEMORANDUM OF THE F.B.I.

A MEMORANDUM on general social and economic questions submitted to the Royal Commission on the Taxation of Profits and Income by the Federation of British Industries was published last week. The Federation is of opinion that improvements in the incidence of the tax or in the machinery of assessment and collection cannot of themselves remedy the evils which spring from the weight of taxation as a whole. It is the total weight of the tax burden which has the main effect upon incentives, risk bearing, savings and inflation.

The Federation refers to the progressive nature of income-tax under which the rate of tax itself increases with increasing income and the taxpayer's effective average rate on the whole of his income is substantially less than the marginal rate on the top £1 of income. Where the employee makes extra effort and earns more pay, the rate of tax applied to the extra earnings is above his true average rate for the year. To some extent the disincentive effect of Pay-as-you-earn is due to the employee misunderstanding the way in which he is taxed and not realizing that over the year of assessment as a whole his true average rate of tax will ultimately emerge. It is possible that this misunderstanding is less common than it was.

The Federation does not recommend a return to the tax deduction system in force for a short time immediately before the introduction of Pay-as-you-earn, which was based upon past earnings. Neither does the Federation recommend the remedies adopted in some other countries of taxing extra earnings and overtime pay at the average rate appropriate to the taxpayer's normal income, or alternatively having a special wages tax outside the general income-tax system. A special wages tax would offend the principle that there should be equal treatment for all persons within the same income brackets irrespective of the nature of the income charged.

When £2,000 a year is reached, there is an immediate leap in marginal rate from 7*s* 7*d* to 11*s* 6*d* in the £. A succession of further steps follows until income after taxation is negligible compared with the attractions of leisure. It then becomes impossible adequately to reward achievement in industrial management and the standard of living of the outstanding man cannot be very different from the mediocre. If the rewards to be gained by young men of character and ability continue to be much greater in other countries, the Federation fears that the spirit of enterprise in British industry must inevitably suffer.

The Federation considers that there are fundamental objections to any merging of income-tax allowances and social security allowances since they are entirely different in character. To convert an income-tax allowance which operates only where there is adequate income into a cash allowance, independent of income, would be to discount the importance of producing income and would increase the number of those who make a profit out of the National Exchequer by receiving more than they contribute. As social security payments were designed on an actuarial basis of contributions by individuals, employers and the State, it would be a mistake to weaken this principle.

The Federation finds that excessive taxation results from the taxation measure of profit differing substantially from what the economist would consider to be the true profit. If depreciation allowances continue to be based upon the historical cost of the plant, and stock valuations fail to recognize the fall in the value of money, there is a real danger of industrial capital not being maintained. It is the opinion of the Federation that it is absolutely vital that capital resources in physical terms should be maintained and it is fundamentally wrong that industry should need to raise fresh capital merely to preserve productive ability.

With present rates of sur-tax and profits tax it is not possible to build up a fund out of which estate duty can be paid on the death of the business owners or shareholders in private companies, in order to leave the capital of the business intact. Nor is it possible for the successor to accumulate out of net income sufficient to pay off the duties.

In regard to oversea profits, the Federation points out that the British tax net is on the whole wider than that of other countries, and reliefs given in respect of tax of oversea income are incomplete. Now that most other countries levy income-tax, the imposition by Britain of tax at very high rates on profits arising in foreign countries, whether remitted to Britain or not, makes it increasingly difficult for United Kingdom controlled concerns to maintain and develop their oversea trade in competition with those undertakings which are not so handicapped. If, in conditions of world inflation, existing oversea enterprises cannot be financed out of undistributed profits, such enterprises will either shrink in size or pass into the hands of local nationals. In consequence, there would be lost not only the profits from the enterprises but also the orders for British equipment and banking and other services. The Federation considers that the logical method of dealing with this matter is to subject to United Kingdom tax only those profits which are remitted to the United Kingdom; otherwise the long-term damage to the British economy which depends so much on foreign trade may be irreparable.

The Federation expresses strong disapproval of profits tax which falls upon the ordinary share capital. This weighting of the scales against risk-taking is regarded as socially undesirable and the abolition of profits tax is advocated.

Nowhere in the memorandum does the Federation speak with the same disapproval of income-tax. The high level of taxation is deeply regretted; the unfortunate social and economic consequences are reported; and serious anomalies are indicated. The main structure of income-tax is apparently accepted and in several passages the Federation speaks in its defence. There is approval of the income-tax principle of equality of treatment of all kinds of taxpayers having the same income, and disapproval of proposals for a separate wages tax or for initial allowances which would discriminate between one industry and another according to its national importance. In a later memorandum the Federation will be putting forward its detailed proposals for tax amendments.

It is interesting to note that the proposals of the Federation, though different in character, are not in head-on collision with those of the Trades Union Congress which were reviewed in these columns on June 2nd, 1951, at page 533. From both bodies we have an appreciation of the serious incidence of taxation on the social and economic life of the nation. Opinions will differ as to the weight to be given to the causes and the remedies of each body, but their main proposals are capable of assimilation into the existing income-tax structure. This is perhaps a tribute to the soundness of the original conception and general development of income-tax over many generations, and a tribute also to the sense of responsibility with which the proposals are put forward.

STOCKS, STANDARDS AND VARIANCES

by F. CLIVE de PAULA, T.D., A.C.A. A.C.W.A.

Increased use is being made of budgetary control combined with standard costs. These accounting methods throw up different variances from month to month throughout the year. The question arises, at the year end, as to how far the standard costs can be used for valuing stocks and how to dispose of the year's variances. In this article the author puts forward suggestions for handling these problems.

WRITING anything about stock and its valuation is a risky undertaking, for it is a subject on which accountants and others are liable to hold strong views with an almost fanatical religious fervour. It is therefore proposed to skirt round many of the major issues that have been ably discussed by other writers in these pages. Instead, one particular facet of this many-sided jewel of debate will be considered.

Since the booklet *Developments in cost accounting* was published by the Institute of Chartered Accountants in 1947, more and more consideration is being given to the use of budgetary control and standard costs, as outlined therein. However, the use of standard costs immediately gives rise to the problem as to the extent to which these can be used in valuing stock for balance sheet purposes at the end of the year. Linked with this is the problem as to how variances should be dealt with; how far they should be written off to profit and loss account (i.e. to cost of sales), or how far they should be applied to stocks.

Broadly speaking it can be said that stock appears as an item in the balance sheets of two main types of business, namely, manufacturing businesses, and trading or retail businesses. It may be found in a wide range of other types of enterprise stretching between those two and extending beyond the scale at either end. In order to bring the range of discussion within controllable limits, this article considers mainly the problem of stock-in-trade in the balance sheets of manufacturing businesses.

It is true that such a narrowing of the field should not be necessary; for if the principles established are correct, then they should be applicable in all circumstances. However, it would be tedious to discuss the problems of stocks in all the different circumstances in which stocks are found. So this review of the problems has been set out with the circumstances of the manufacturing business in mind. If any of the ideas put forward are found to be useful in other types of business, then so much the better.

Indeed, it is hard to find any inviolable principles that can be applied to stock in all circumstances. About the only one is that enunciated in the last paragraph of the Institute of Chartered Accountants' Recommendations on Accounting Principles No. X on 'The valuation of stock-in-trade', which states:

> 'Whatever basis is adopted . . ., it should be such as will not distort the view of the real trend of trading results and should be applied consistently. . . .'

MARKET VALUE

When The Institute of Chartered Accountants in England and Wales published Recommendation No. X on the 'Valuation of stock-in-trade', in June 1945, it set out clearly its interpretation of the meaning attaching to the words 'cost' and 'market' as used in the familiar context of stock valuation. More important still, it was demonstrated that the valuation of stock 'at cost or market' involves two distinct processes, namely:

(i) the ascertainment of cost,
(ii) establishing market value.

Furthermore, paragraph 109 states briefly that in the opinion of the Institute,

> 'Profit or loss on trading is the difference between the amount for which goods are sold and their cost'.

It is then interesting to note the wording used later on in paragraph 131, which states that

> 'for the purpose of estimating the amount of the provision required to reduce stock-in-trade below cost . . . '

From this it would seem clear that, in order to calculate trading profit or loss, stock must be valued at cost (to conform with paragraph 109 quoted above). Then, from the profit or loss so calculated, a provision (as in paragraph 131) must be made against possible future losses due to any fall in market value. In other words, the effect of market value does not directly enter into trading results, but is a second operation, necessitating the setting aside of part of the trading profits, or increasing the trading losses, in order to provide against possible contingencies and losses. This last operation is mainly required in order to arrive at 'profits available for distribution'.

LEGAL REQUIREMENTS

Change of Basis

In point of time, the next important factor bearing on the valuation of stock-in-trade was the passing of the Companies Act in 1948. This contains the now familiar ruling, in Section 149 (1), that the profit and loss account must give a true and fair view of the profit or loss for the period. Later, in the Eighth Schedule, Part I, Section 14 (6) (*b*), the Act requires there to be shown, as a separate item, in the profit and loss account, the effect of any change in the basis of accounting.

The effect of this is that, if the basis of stock valuation is changed, the effect of that change must be shown in the accounts. The Act does not, as some people are inclined to think, prohibit any change being made. It clearly places legal encouragement on the maintenance of *consistency of method* of stock valuation. But if the accounting and costing procedures of a company are changed over to standard costing, there is no legal objection under the Act to adopting standard costs for the end-year stock valuation. All that is required is that, in the year of change, the effect of the change on that year's results must be separately shown. In practice this means that in the year of change the stock will have to be valued both on the 'old' basis and the 'new', so that the net difference can be calculated. After that, standard costs may be maintained from year to year without further reference to the 'old' basis.

Adjustment from Cost to Market Value

However, the Act is less specific in the case of the more familiar, and more frequent, adjustment to the stock value – namely, the adjustment of stock from cost down to market value. Whereas, under the Eighth Schedule, Part I, Section 12 (1) (*b*), the Act requires the profit and loss account to show separately the provision made for the diminution in value of fixed assets, it does not on the other hand require the diminution in value of current assets to be shown. This distinction in the treatment of fixed and current assets seems a pity, from the point of full and informative accounting. The effect, on the results disclosed, of the reduction of stock below cost to market value can be very considerable. Furthermore, it is an element in the disclosed results which can fluctuate very widely from year to year. So much so, that this single influence could make the results of one year quite incomparable with those of the next. Yet its effect does not need to be disclosed.

The true trend of results from year to year could be more easily followed were the profit and loss account to contain information on the following lines:

	£	£
Sales		xxxx
Opening stock at cost	xxx	
Add Purchases	xxx	
Tracing expenses	xxx	
Depreciation of fixed assets	xxx	
Deduct Closing stock, at cost ..	xxx	xxxx
Trading profit (or loss)		xxx
Deduct Provision to reduce stock below cost to market value	xxx	
Other financial provisions	xxx	xxx
Distributable profit (or loss) for the year		£ xxx

From such a form of presentation it would be possible to see clearly the true trend of trading results from year to year. The effect of provisions made against possible (but as yet unrealized) future losses is kept quite separate. It would also seem that such a form of presentation conforms strictly to the concept of paragraph 109 of the Institute's Recommendation No. X, which states that;

> 'Profit or loss on trading is the difference between the amount for which goods are sold and their cost . . . , but it is essential that provision should be made to cover anticipated losses.'

COST

So much then for the questions of market value and some of the requirements of the law – there remains the question of cost and the place of standards in the picture.

It is not proposed to discuss the pros and cons of the many other different methods of valuing stock. Nor is it intended to deal with the quite separate question of inflation and its effect on the results disclosed by conventional accounting methods. Those are matters which have already been widely discussed, and doubtless will continue to be, elswhere. It will narrow the area of discussion to deal only with some of the problems of end-year stock valuation met by those who use standard costs and budgetary control.

Raw Materials

In the case of the raw material stocks and stocks of 'bought out finished parts' there are two methods of treatment commonly met, when standards are in use.

In some cases these are carried in the books at 'actual' cost. The difference between this and 'standard' is then written off at the time the materials or parts are taken out of stock and put

into production. If this is done, the problem of 'standard costs' does not arise at the time of end-year stock valuation so far as these stocks are concerned. They can continue to be valued by whatever method is used to arrive at 'actual' cost.

The other method, which has considerable administrative convenience, is to calculate the 'standard' value of all invoices for incoming materials and parts. The material price variance is then written off as soon as the materials and parts are taken into stock. All stocks are then carried at 'standard'.

Those who advocate the use of standard prices argue that properly set standard prices represent the current prices which those materials are worth to the production departments. They represent the fixed buying price at which the production departments are prepared to take over those materials from the purchasing departments. They are the prices at which it is possible to convert the material into the finished product and earn a profit at current selling prices. Therefore, any excess of actual purchase price over these standard prices represents a buying loss in the period in question, which should be written off entirely to profit and loss account in the period.

Similarly, it might be argued that any amount by which actual purchase prices are below standard prices represents a gain in the period in question. However, it must be realized that any such saving of 'actual' against 'standard' purchase prices may, at the end of the year, be applicable partly to goods sold and partly to stocks in hand. So far as it relates to stock, it is not a distributable profit. That part of the saving which applies to stock must therefore be deducted as a 'provision' from the trading profit, and be carried forward in the accounts until that stock is sold.

Where actual purchase prices have been above standard prices, there may be circumstances in which it may not be thought desirable to write off the whole of the adverse price variance to the profit and loss account of that year. In other words, that part of the loss which is applicable to stock would be carried forward into the following year. If this is done, it would presumably be done by adding back an appropriate proportion of the price variance to the total stock value for balance sheet purposes. It can only be decided in the circumstances of each case whether this is more correct than writing off the loss as soon as it arises. For it must not be overlooked that if selling prices are closely linked to standard manufacturing costs, the addition of the price variance to the value of stock might raise the stock to a value at which it was no longer possible to process it and sell it at a profit.

Raw material Content of Work in Progress and Finished Stock

The various problems connected with raw material and bought out finished parts apply equally to the material content of partly processed, and finished, stocks. For at the time of the end-year accounts, there are almost certain to be goods at various stages of completion.

However, in those cases where raw material stocks are carried in the books at 'actual' cost, complications arise in respect of partly processed materials. For in many industries involving complicated manufacturing processes, many items of raw material rapidly lose their identity once they are put into production. The precise quantity of different materials in partly processed articles may be extremely hard to establish. In such circumstances, therefore, it may prove well-nigh impossible to apply in detail any of the different methods used for establishing 'actual' cost.

For these and other reasons it is commonly held that it is not unreasonable to value the raw material content of work in progress and finished stock at 'standard', provided the standards have been reasonably and properly established.

CONVERSION COSTS

Whatever the method of costing employed there is bound to be a certain amount of discussion as to what expenses should properly be included in stock valuation, and what should be written off to profit and loss account in the year in which they were incurred, that is to say upon a time basis.

Broadly speaking, the expenses of a manufacturing business can be divided into:

Selling and distribution expenses,
Administration Expenses,
Fixed } { General works expenses,
Variable } { Direct departmental expenses,
Direct labour.

Selling and Distribution Expenses

There is generally not much disagreement that selling and distribution expenses should be excluded from the stock valuation. They have not, in the main, been incurred in respect of those items which are still in stock, and are therefore omitted.

Administration Expenses

The expenses of administration normally cover such items as the salaries and expenses of the accounts department, secretary's department,

managing director's staff, and other senior executives. They are mainly all of a fixed nature, and the balance of opinion today appears to be that such items of expense are incurred fundamentally on a time basis. This means that they are a charge against the profit and loss account in the year in which they arise, and are thus excluded from stock values.

Variable Expenses

It is common to find most authorities agreed that there should be included in stock values all 'direct labour and direct expenses incurred in bringing the product into its present state, either in work in progress or in finished stock'. It is generally agreed, therefore, that this should include:

Direct labour,
Variable direct departmental expenses,
Variable general works expenses.

Fixed Expenses

So we come down to the fact that most discussion and difficulty turns on the question as to whether there should be included in stock any amount in respect of:

Fixed direct departmental expenses, or
Fixed general works expenses.

If any form of 'actual' costing is employed, it normally has the effect of re-calculating each year the rate at which fixed expenses shall be applied to the different items in stock. For the rate per item is arrived at by dividing the output for the period into the expenses. So if output is high, then the rate of fixed expense per item is low. Conversely, if output falls the following year, the effect will be to cause a high rate of fixed expense per item. Thus, the stock value of an item rises as output falls, and vice versa – although general commercial experience would suggest that the commercial value of the item is probably moving in precisely the opposite direction.

Exclusion of Fixed Expenses

For this reason there is a school of thought which advocates the complete exclusion of all fixed expenses from stock. This school argues that the principle is the same as that generally accepted in the case of administration expenses – namely, that fixed expenses are incurred on a time basis and that therefore they should be written off to profit and loss account on a time basis, which has nothing to do with the number of articles produced, sold, or in stock. They argue that any inclusion of fixed expenses in stock distorts trading results.

Normal or Standard Fixed Expenses

However, in many cases it would not seem desirable to go quite as far as this. With the introduction of increasingly extensive mechanical processes, the variable direct labour cost of yesterday is today being replaced by the fixed costs of factory equipment. In many cases the exclusion of all fixed expenses might produce a distortion of results since it might eliminate the major portion of manufacturing cost. As a result, stock values might be reduced to a disproportionately low figure.

Those who do not favour the complete exclusion of fixed expenses turn back to the definition that there should be included in stock

> 'all direct labour and direct expenses incurred in bringing the product into its present state . . .'

They argue that since these departmental and works expenses, although they may be of a fixed nature, have been incurred in bringing the product into its present state, it could not have reached that state at all without the assistance provided by these fixed facilities.

To avoid the distortion of trading results, which is the main root of objection of those who favour the complete exclusion of all fixed expenses, it is suggested that the rates at which fixed expenses are included in stock should be based on normal levels of output. In this way the distortion of results caused by such expenses getting into stock at different rates each year is to a large extent avoided.

The level which is regarded as normal must depend on individual circumstances. It is commonly found that 70–80 per cent of full capacity is a reasonable figure to aim at. Any rise or fall in production above or below that normal will result in over- or under-absorption of fixed expenses in that period. The view is taken that this 'volume variance' is the result of trading in the period in which it arises, and it should therefore be written off to profit and loss account in that period. Stock remains at the beginning and end of the year with its normal, or standard, content of fixed expenses.

Machine Depreciation on Basis of Use

In the case of machine depreciation, this arises mainly from use. It would seem better for depreciation of production machinery to be written off as a variable expense varying with production, rather than in fixed annual amounts on a time basis as is commonly done at present. This would overcome the objections of those who favour the exclusion of all fixed expenses from stock, and in many cases would appear to have much to recommend it.

OPERATING VARIANCES

If stocks are valued on the basis of including fixed expenses at a standard rate, there will inevitably be some degree of over- or under-absorption each year. In addition it is common to find that, where standard costs are in use, manufacturing expenses are also added into work in progress and stock at standard rates. So in addition to the *volume* variances, there are the *production* variances to deal with each year. Clearly, they can either be written off entirely to profit and loss account in the year in which they arise, or they can be apportioned between cost of sales and stock.

Favourable or Credit Variances

On any of the different variance accounts which may be used in any particular set of books, there may have been savings of actual expenditure, or of fixed expense recovery, as compared with standard. So far as these savings apply to goods sold, they are savings which have been realized. However, so far as they apply to unsold stock, they represent unrealized gains. As such, they should therefore be carried forward until the goods are sold. To avoid distorting the disclosed trading results, it would seem better to do this by leaving the stock value at standard and by carrying forward the part applicable to stock as a 'provision' in the accounts.

Unfavourable or Debit Variances

In the case of under-absorbed fixed expenses and expenditure in excess of standard, it is argued that these represent the cost of waste and inefficiency in the course of the year's trading, and that therefore they should be written off in that year. This line of thought follows logically on the well-established accounting principle that accounts should provide for all losses but reflect no unrealized gains. This principle can be most closely adhered to if credit variances applicable to goods in hand are carried forward as 'provisions' (as discussed in the preceding section) and if debit variances are written off in the period in which they arise.

Against this, however, the argument is sometimes heard that to eliminate debit variances from stock results in reducing that item below 'actual cost', and therefore so far as debit variances are written off, that are applicable to stock, a 'reserve' has been created. But, if standards have been properly set, to carry forward part of the debit variance by adding it back to stock values would seem to have two results:

(i) it distorts the disclosed trend of trading results,

(ii) it loads into a subsequent period, losses which really form no part of the later period's trading.

Therefore, from the point of view of prudent finance and consistent accounting, it seems best to treat unfavourable variances as losses of the period in which they arise and write them off entirely to profit and loss account. Only in exceptional circumstances might it be necessary to consider making some note in the accounts, as to the extent to which this has resulted in writing off variances applicable to stock in hand.

CONCLUSION

The effect of the above suggestions can be summarized in the following diagrammatic trading account:

	£	£
Total sales		xxxxx
Opening stock at standard cost ..	xxx	
Plus Material purchases at standard price	xxxx	
Plus Standard manufacturing expenses	xxxx	
Less Closing stock at standard cost	xxx	xxxxx
Anticipated trading profit ..		xxxx
Plus Total credit variances ..	xx	
Less Total debit variances ..	xx	xxx
Actual trading profit		xxx
Less Provision in respect of credit variances applicable to stock, being unrealized gain	xx	
Less Provision to reduce closing stock below cost to market value	xx	xxx
Profit available for distribution		£ xx

In so far as these suggestions require the carrying forward, as a provision, of that part of the credit variance applicable to stock, there arises the further problem of apportioning the year's variances between cost of sales and stock. Unfortunately, this is a problem on which it is extremely difficult to lay down any hard and fast proposals. There are many different types of variance that may be met with in practice, and equally, many different ways of calculating cost of sales and the value of stock. The calculation in any given circumstances must depend on the records and information available on which to make the calculation.

AN INCURSION INTO BACK DUTY

A DIARY OF EVENTS IN A CASE OF COMPENSATING ERRORS

by ISAAC BARTFIELD, F.S.A.A.

In this article the author points out the onerous responsibility which falls on the accountant who is conducting, on behalf of his client, delicate back duty negotiations with the Revenue. It shows how the accountant's efforts to obtain the best pecuniary settlement can be ruined by an incomplete disclosure of all the material facts by the client.

The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.

The First Step

SCENE: *The office of H. M. Inspector of Taxes in a country town. The junior Inspector is conferring with the senior Inspector.*

JUNIOR INSPECTOR: My post this morning *is* trying; an anonymous letter has been received about a Mr X. of 371 Nigh Street, and I feel that the particulars given seem to ring true. I've taken the file out and I intend to ask the acting accountant for a statement of worth, so that I can weigh up the position.

SENIOR INSPECTOR: Very well, then. One wonders sometimes how we can deal with new matters when there are such heavy arrears to clear up.

Final Interview with Client

The scene now changes to an accountant's office.

ACCOUNTANT (*to his client*): I think it might be useful, at this stage, for us to consider at some length the history of your case; since the Inspector asked, amongst other queries arising on your accounts to June 30th last, for a statement of worth and subsequently raised various questions on that statement, I'm very anxious that you understand the present position thoroughly. As you know, when the reconciliation of profits with your capital position was drawn up for the past twelve years, various deficiencies were revealed in several years and it must be assumed, in the absence of proof, that these were almost wholly profits, which means that your income-tax returns showed understated profits in those years.

CLIENT: I must repeat again what I have told you on several occasions. I don't know why the Inspector would not accept the fact about the gift of £2,000 in cash I got ten years ago from my Uncle Harry. It is true he cannot be traced now – he fell out with the family and spent his last years somewhere in the south of England; it's bad luck for me that I cannot *prove* he gave me this money.

ACCOUNTANT: There it is, and you cannot show exactly where and when this alleged gift was invested or deposited.

CLIENT: It is true that I did use some of the takings to buy war savings certificates, but there are advertisements in the papers – Post Office notices which state that these are free of tax and as I understand it free of tax means *free of tax.* After all, I *did* invest the money with the Government, and if I was going to hide anything I would not put the money with the very people who are worrying me now.

ACCOUNTANT: I must stress again that up to now you have not produced any *evidence* in support of your contention regarding the sources of the money you state you received outside your business.

CLIENT: I also put part of the gift from my uncle in the building society, and the building society pay the tax. I thought it unnecessary to mention this either.

ACCOUNTANT: But there is a special space in the return for building society interest to be mentioned, and I must advise you that as you omitted to mention this you have made incorrect returns.

CLIENT: I feel that just because I invested the money in small sums I'm being penalized. I did not like the idea of taking big sums of money to be invested and I felt sensitive of the bank cashier seeing such a lot of money at once.

ACCOUNTANT: Of course, we can go before the Commissioners if you like, and your case can be gone into by them and their decision with regard to the facts of the matter will be final.

CLIENT: You seem to make things awfully hard for me. I sometimes wonder whether you're on my side or whether you're acting for the income-tax people.

ACCOUNTANT: I am doing all I can to advise you properly, having regard to the wrong returns you have completed, and to get the best possible

settlement for you, but if you think you can improve on the advice I am giving you, I'm quite prepared to retire from the case.

CLIENT (*apologetically*): This matter is upsetting my nervous system. I didn't mean what I said. I really do understand that you are trying to do your best for me.

ACCOUNTANT: Very well then. The Inspector has accepted the explanation about the sale of the antique grandfather clock, and the £230 which you say you won at – er – gambling. Taking into account everything – including the credit for the items I have mentioned it has been ascertained that for the past twelve years you have underpaid tax to the amount of £1,412, and in addition you're liable to penalties for incorrect returns.

CLIENT: It seems an awful lot to me. Why, it's impossible! What do you advise?

ACCOUNTANT: In practice, the Revenue accept a mitigated penalty; and I should say that an offer of £2,250 would settle the case. I think that the Inspector would recommend this figure to his head office for acceptance. As a condition of the offer, of course, you will have to sign a certificate of complete disclosure and you must be extremely careful to see that *everything* is disclosed. If anything came out afterwards, the Revenue might not accept a financial settlement. Please think about the matter very carefully.

CLIENT: There is certainly nothing further to disclose.

ACCOUNTANT: A formal interview will have to be arranged with the Inspector, at which you will have to be present, and the Inspector will explain to you, on broad lines, his idea of your case and he will invite your offer in settlement to the Board of Inland Revenue.

CLIENT: Please arrange the interview as soon as possible, I want to see the end of this matter.

The Settlement Interview

The Inspector's office:

INSPECTOR: Good afternoon. I have asked your accountant, Mr D., to bring you along so that I may explain to you the position you have placed yourself in by making false returns. You see, I must make a report to my head office. You know you have left yourself liable for heavy penalties by understating your profits and by the omission of building society interest from your returns.

CLIENT: I'm extremely sorry about the whole matter. I have been under a misunderstanding. I have never deceived you wilfully, but I realize it is impossible to prove what I am saying.

INSPECTOR: The whole question of the settlement is in the hands of my head office. I must transmit your offer there. The Board, in cases of this kind, may accept a mitigated penalty, and your accountant will advise you what offer to make, in the light of the circumstances of this case.

CLIENT: I follow you.

INSPECTOR: I have received your certificate of disclosure from your accountant; but one of my main reasons for seeing you is to impress upon you the most urgent necessity of making a full and complete disclosure. If anything should be wrong the Board might take a more serious view next time. I hope you have paid particular attention to such items as jewellery, cash in hand, safe deposit lodgments, etc.

CLIENT: I have had everything explained to me by my accountant and you can be sure that everything is there now. My accountant is of the opinion that £2,250 will settle the matter, and as the affair is worrying my wife very much and I want to spare her the worry, I am prepared, subject to the approval of my accountant, to write out a cheque for £2,250 here and now, for you to send with the offer.

ACCOUNTANT: I can't see any objection to that.

INSPECTOR: I must make it perfectly clear that I am not in a position to make a final settlement, that is a matter entirely for the Board of Inland Revenue to whom, however, I am prepared to make a report recommending that they should accept the sum offered by you.

CLIENT: I understand perfectly, and I will give you the cheque on those conditions. Here it is.

INSPECTOR (*looks at the cheque and hesitates*): I cannot see the banking account in your statement of worth, that this cheque is drawn on.

CLIENT (*nonplussed*): Why, of course not. I was keeping this money on one side to pay the income-tax with.

INSPECTOR: This puts a much more serious complexion on the case. We had better adjourn the interview and you must confer with your accountant; please take the greatest possible notice of what he advises. (*To the accountant.*) Please make an appointment with me, Mr D., to discuss this case after you have probed the matter further.

ACCOUNTANT: Very good, I'll do that.

The client and the accountant leave.

The Inspector sits in his chair with a look of dejection; he picks up the anonymous letter and casually compares the address with that on the file, and finds he has started an inquiry into the affairs of Mr X. at 371 Nigh Street, whilst the letter refers to a Mr X. at 713 Nigh Street. The inquiry had been started by a pure coincidence!

WEEKLY NOTES

The Institute's Fifth Summer Course at Oxford

The fifth summer course of the Institute of Chartered Accountants was held – as is now the agreeable custom – at Christ Church, Oxford, beginning last Sunday and ending yesterday. An occupational analysis of the 165 members who attended showed that 111 were in practice, 32 were with public accountants, and 22 in other occupations. The Summer Course Committee was again under the chairmanship of Mr Donald V. House, F.C.A., and to him and his colleagues we offer our congratulations on yet another success.

The subjects of papers were: 'Public accountancy in Australia', by Mr H. W. Chancellor, F.C.A.(AUST.), Vice-President of The Institute of Chartered Accountants in Australia; 'An accountant's working papers', by Mr S. M. Duncan, F.C.A., a partner in a well-known firm of chartered accountants; 'Some reflections on industrial profits', by Mr H. P. Finn, A.C.A., who is financial director of an industrial company; and 'Auditing', by Mr W. H. Lawson, C.B.E., B.A., F.C.A., a member of the Council of the Institute, and a partner in another well-known firm of chartered accountants.

Last Thursday, the President of the Institute, Mr Charles W. Boyce, C.B.E., F.C.A., presided over the guest night dinner in Hall. Among the guests were The Very Reverend J. Lowe, M.A. (*Vice-Chancellor, Oxford University, and Dean of Christ Church*); Lieut.-Col. D. V. Hill, M.A. (*Steward of Christ Church*); Messrs H. R. Trevor-Roper, M.A. (*Senior Censor of Christ Church*); D. Veale, C.B.E., M.A. (*Registrar of the University*); H. H. Keen, M.A., F.C.A. (*Secretary to the Curators of the University Chest*); J. N. L. Myres, M.A. (*Bodley's Librarian*); R. W. Bankes, C.B.E., B.A. (*former Secretary of the Institute*).

With our next issue we hope to present to our readers a photograph of some of the personalities who attended the course, and in later issues to reproduce the papers.

The Incorporated Accountants' Course

The Society's residential course commenced last Thursday and is in progress at Gonville and Caius College, Cambridge. It is being presided over by Mr C. Percy Barrowcliff, F.S.A.A., President of the Society, and will disperse on Tuesday next.

Although in past years the venue of their courses has varied, the Incorporated Accountants are no strangers to Caius, for it was there that the first of such courses was held in 1934. No doubt the present assembly acquires an added interest and will derive a touch of inspiration by this historical association.

Last week we announced the names of those who have been invited to present papers, and we hope to include a survey of these in an early issue.

More Productivity Team Reports

The production of Productivity Team reports proceeds apace. This week brought three new reports – those of the teams which represented British farming, the hop industry, and hot dip galvanizing.[1]

By far the most informative, from a costing viewpoint, is the 113-page, lavishly produced and illustrated report on hops. The investigation arose from the fact that in 1948 and 1949 American hops (grown on the Pacific coast) were offered in England and Europe at prices below the average cost of producing English hops, and the report devotes no less than sixteen pages to an exhaustive and detailed comparison of production costs in the two countries. This is cost reporting at its best, and the team is to be congratulated on a fine example of useful figure-work.

Much depends, of course, on conditions, and these are widely different in the two countries. In America, climate and soil conditions are much more favourable, pests and diseases are fewer, and the scale of manuring is very low by English standards; wire-work is lighter than English weather conditions permit. But perhaps the biggest difference is that, mainly because wage rates are very high (U.S.A. 6*s* 1*d* per hour; England 2*s* 1½*d*), nearly all hops are grown for machine picking, and as present-day picking machines cannot deal efficiently with the bushy, tangled growths of heavy crops, relatively light crops are produced intentionally, by growing fewer 'hills' per acre with only two strings per 'hill'. American machine-picking is much cheaper than hand-picking, but because of wage-rates, American picking costs more than English.

Whereas hops take 113 pages, farming in general is dealt with in forty-three pages, and there is no section on costs. The decisive factor is again the labour element, and this takes precedence over land and capital, because wage rates are high and land is comparatively plentiful. Consequently, American farmers have adopted *extensive* rather than *intensive* methods, varying the area farmed so as to obtain, in the words of the report, 'the best fit of land, men and machines'.

Although the report on hot dip galvanizing does include a section on costing, it is of very limited value. The team remarks:

> 'We found the methods employed in the American galvanizing industry were as varied as ours and that any attempt to compare actual costs would be fruitless. . . . A further difficulty arose from the reluctance of some of those whom we visited to discuss costing matters, either in detail or at all.'

And its only recommendation on this subject is that more consideration should be given to the time factor in costing job galvanizing.

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[1] *Productivity and Farming*, 2*s* 6*d* (post free); *The Hop Industry*, 9*s* 6*d* (post free); *Hot Dip Galvanizing*, 3*s* 3*d* (post free). Anglo-American Council on Productivity, 21 Tothill Street, London, SW1.

Dividend Limitation: Treasury Thinks Again

Sir Wilfrid Eady's recent letter from the Treasury to the Capital Issues Committee on the need for it to scrutinize all applications for new money in the case of issues with a bonus element in them has raised several important issues of principle. 'While the Capital Issues Committee', says Sir Wilfrid in the second paragraph of the letter, 'has, of course, no responsibilities in the matter of the control of dividends, this [gaining advantage from shares with a bonus element] is a consequence which we would clearly wish to avoid. I would therefore ask that the Committee should examine all applications for the raising of money so as to ensure that the price proposed is fair and reasonable having regard . . . to the current value of existing shares and . . . for making the offer sufficiently attractive to investors. . .'

This move by the Treasury raises a number of queries. It is clear for instance that although the Capital Issues Committee has no responsibility for enforcing dividend limitation – a point on which the Treasury concurs – it is being made an instrument of that policy. This is a nice differentiation which will be lost on the practically-minded people in the City. Again, it looks as though the Committee is expected to put its instructions into practice right away. There is to be no waiting for legislation in the autumn either before or after a general election. What the Legislature must wait to do the Treasury apparently will – a pernicious principle. It might also be pointed out that this letter is very much a contradiction of the Treasury's interpretation of the meaning of the White Paper on dividend limitation given to the Issuing Houses Association.

Belgium and E.P.U.

Belgium's large credit position with the European Payments Union, which was dealt with briefly in a note on the European Payments Union some weeks ago, is now assuming the proportions of a major problem for the Union. It is certainly the biggest problem the board of management has had since the German debtor crisis earlier this year. The very fact, however, that in the case of Belgium it is her creditor position which is the cause of the difficulty makes it all the more awkward. Under the constitution of the European Payments Union a creditor nation is in a much more powerful position to go its own way than a debtor – a state of affairs not uncommon in the course of business in general!

The underlying problem is the familiar one at the European Payments Union. The trend of credit or debit balances gives a very valuable indication of the external trade position of member countries with each other but there are no sanctions available to make any particular country take drastic remedial action. Yet on occasion such action may have to be taken with all the attendant unpleasant repercussions on the internal economy which may follow if a flow of gold is to be arrested. It was the automatic nature of such drastic adjustments in action that killed off the gold standard in the early thirties.

Belgium has herself taken certain steps to relieve the pressure which she now exerts on the other members' gold resources but these cannot have any very immediate effect.

United Kingdom's Reserves and Liabilities

A White Paper issued last week as Cmd. 8354 has set out this country's reserves and liabilities position for the years 1931 to 1945. The period covered is therefore from the end of the gold standard and the introduction of the exchange equalization account to the end of the war. It is pointed out that these figures are supplementary to those issued for 1946 onwards and with some adjustments give a picture of the history of the fluctuations of this country's reserves over a twenty-year period.

The broad picture before the war is already well known, but table I in the White Paper gives a useful summary of the changes in reserves and liabilities from 1932 to 1939. The second table covers the war years. Between 1932 and 1937 reserves increased by £600 million and liabilities by only £350 million. Then the trend was reversed. From 1938 to 1941 reserves fell by over £750 million and total liabilities rose by £70 million. The flow of lease-lend supplies and dollar expenditure on maintenance of troops in this country then brought about a change until the end of the war. Reserves recovered to £650 million. But over the same period, sterling liabilities were being built up at a tremendous pace for settlement in the then indefinite future. They stood at £3,688 million at the end of 1945.

International Bank Report

The sixth annual report of the International Bank has now been published. It covers the twelve months ended June 30th, 1951. Loans made during the year come to more than $297 million and were spread over eleven countries. This makes the financial year just ended the most active in the Bank's history.

Advances by the Bank since the first loans were made can be divided into two groups. The first, amounting to $617 million (nearly half of this was loaned last year), comes under the heading of economic development. It covers such items as $100 million to Australia for new equipment in agriculture and industry, and three separate loans totalling $100 million to South Africa, much of which has been for the Electricity Supply Commission. It is clear from the overall figures that advances for the development of countries mainly dependent on exporting primary products are now a very high proportion of the total.

The second group totalling $497 million, covers reconstruction loans to Denmark, France, Luxembourg, and the Netherlands, and were negotiated in 1947 as a stop-gap measure before Marshall Aid got under way.

The two sections taken together give a total of loans outstanding by the Bank of $1,114 million.

FINANCE AND COMMERCE

Stock markets remain governed by political and economic uncertainties. A safety valve for speculative activity is provided by the sharp fluctuations in foreign government bonds, notably Japanese and German issues. Canadian securities are also active but outside such special issues, markets remain quiet and rather apprehensive. Dividend limitation remains the main unsettling factor.

From Australia

We present this week the accounts of Jantzen (Australia) Ltd for which we are indebted to our friends in the Commonwealth. We referred to the previous accounts in our issue of August 12th last year, since when we learn those accounts have been adjudged Australia's best.

This competition was conducted by the Sydney division of the Australian Institute of Management, the adjudicating panel consisting of a well-known chairman of directors as chairman, the chairman of the Sydney Stock Exchange, a nominee of The Institute of Chartered Accountants in Australia, a nominee of the Finance Panel of the Institute of Management, and a nominee from each of the production, personnel, and marketing panels of the Institute of Management, each of these three nominees being without accountancy training.

A detailed analysis of the entries was made by the panel under the three heads, presentation, financial data, and general information, resulting in the selection of twenty-one accounts, one as the winning entry and twenty for merit awards.

Cover Girl

We see from *The Federal Accountant*, the official journal of the Federal Institute of Accountants in Australia that, under the heading of presentation, all twenty-one companies used a distinctive cover for their reports and accounts. On the score of cover alone, this year's report and accounts of the Jantzen company should top the list again, although 'distinctive' is perhaps too sedate an adjective for the Jantzen cover.

In this context, we are not so sure we like it. Probably it is a matter of taste which is a varying factor depending very much on the age into which we were born. What seems proper in these 'pin-up' days, however, can look out of place in company accounts to the older generation. But, as we have said, it depends on one's personal view.

The actual accounts will be seen in the reprint. These are accompanied in the original by graphs showing the distribution of the year's income; division of available income; number of employees and total assets per employee; sales and net profit (after taxation), and the increase in the company's funds, how provided and used. The provision of a sales total is particularly important. Very few companies in this country produce accounts which reach that level of informativeness, and it may be added that only seven out of the twenty-one Australian companies gave a sales figure.

Speed is Essential

Good accounting we have always maintained is a product of volume of speeds. Pages of figures lose their informative value if the facts are stale. Up-to-date figures are insufficient if the facts are inadequate. Adequate up-to-date facts are – or should be – available to company directors. If they are not, the administration is unsound and it is not without point that the main excuse for company disaster since the war has been that the administration was unaware how serious these situations had become.

From board-room to shareholder is only a short step, though in practice it is all too often made far longer than it ought to be.

It was to counter this tendency that we published, with special approval, the example of prompt accounting in the monthly report to shareholders and Stock Exchange, of the Caterpillar Tractor Company of America. Our correspondence columns have since shown that the material is available. Yet we are unable to record any instance here of a performance comparable with the American practice.

JANTZEN FACTS AT A GLANCE

	1950 £		1951 £	
	£815,975	Sales	£1,042,990	
	75,760	**Net Profit** (before Taxes) ..	96,412	
	29,200	Less Provision for Taxes ..	55,000	
	£46,560	**Net Profit** (after Taxes) ..	£41,412	
	5·70%	*Percentage to Sales*	*3·97%*	
	£32,710	**Profit retained for use in the business**	£25,190	
	4·01%	*Percentage to Sales*	*2·41%*	
		Summary of Shareholders' Funds:		
Ratio 1 to 1·66	458,636	Current Assets	617,808	*Ratio 1 to 1·50*
	275,541	Less Current Liabilities ..	411,989	
	183,095	Working Capital	205,819	
	96,668	Fixed Assets (Net)	114,134	
	10,000	Patents, Trade Marks, etc. (Net)	10,000	
	£289,763		£329,953	
		Shareholders:		
	238	Average number during year ..	252	
	£13,850	Total Dividends	£16,222	
	1·69%	*Total Dividends – as percentage to Sales*	*1·56%*	
	£58	Average Dividend per Shareholder	£64	
		Employees:		
	484	Average number during year ..	549	
	£205,397	Total Remuneration	£268,776	
	25·17%	*Total Remuneration – as percentage to Sales*	*25·77%*	
	£424	Average Annual Earnings per Employee	£490	
	£68	Profit Retained in the Business per Employee	£46	
	£1,135	Total Assets per Employee at end of year	£1,286	

JANTZEN (AUSTRALIA) LIMITED

Statement of Financial Position at March 31st, 1951

(Showing Corresponding Figures at March 31st, 1950)

1950		1951		
£		£	£	£
	Shareholders' Funds			
	Capital (in Shares of £1 each):	*Authorized*	*Issued*	
25,000	35,000 9 per cent Cumulative First Preference	35,000	35,000	
100,000	100,000 5 per cent Cumulative Second Preference	100,000	100,000	
73,333	115,000 Ordinary	115,000	73,333	
198,333		£250,000		208,333
	Reserves (used in the business):			
—	Share Premiums		5,000	
65,000	General		85,000	
15,000	Contingencies		20,000	
80,000				110,000
11,430	**Profit and Loss**			11,620
£289,763	Total Shareholders' Funds which represent the investment by 252 Shareholders (238 in 1950)			£329,953
	These are used in the business as follows:			
	Current Assets:			
441	Cash on Hand		413	
	Accounts Receivable	£179,408		
	Less Provision for Doubtful Debts and Discounts	6,033		
45,574			173,375	
312,367	Inventories, at lower of Cost or Market Value and after provision for increased costs to cover forward orders at fixed prices ..		443,704	
254	Deferred Charges		316	
458,636	Total Current Assets			617,808
	Less Current Liabilities:			
156,065	Bank Overdraft (Secured)		172,254	
—	Bills Payable to Bank (Secured)		43,080	
55,933	Accounts Payable to Suppliers and Others ..		88,915	
7,724	Accrued Expenses		11,243	
47,615	Provision for Income Tax		86,235	
	Provision for Dividends Payable:			
	First Preference Shares	£787		
	Second Preference Shares	1,042		
	Proposed Dividend on Ordinary Shares	8,433		
8,204			10,262	
275,541	Total Current Liabilities			411,989
183,095	**Working Capital**			205,819
	Fixed Assets:			
59,654	Land and Buildings		72,438	
89,164	Machinery and Equipment		100,056	
16,900	Furniture and Fittings		19,060	
6,202	Motor Vehicles		8,915	
171,920	Total Cost		200,469	
75,252	*Less* Provision for Depreciation ..		86,335	
96,668	Net Depreciated Cost			114,134
	Patents, Trade Marks, etc.:			
	At Cost		15,000	
	Less Amount written-off		5,000	
10,000				10,000
£289,763				£329,953

W. A. FREEMAN }
J. N. WALKER } *Directors.*

STATEMENT OF PROFIT AND LOSS

for the Year ended March 31st, 1951

(Showing Corresponding Figures for the Previous Year)

1950		1951	
£		£	£
7,720	Surplus at March 31st, 1950		11,430
*230,626	Gross Manufacturing Profit for year ended March 31st, 1951 (after provision for increased costs to cover forward orders at fixed prices)	294,326	
	Deduct:		
*184,066	Expenses of Operations, including Provision for Income Taxes (£45,000), Excess Profits Tax (£10,000), Directors' Fees (£550), and Contribution to Superannuation Scheme (£2,160)	252,914	
46,560	Net Profit for the Year	41,412	
	Deduct:		
8,000	Transfer to Reserve for Contingencies .. £5,000		
21,000	Transfer to General Reserve 20,000		
	Provision for:		
2,250	9 per cent Dividend on Cumulative First Preference Shares (of which £2,002 was paid prior to March 31st, 1951) 2,789		
5,000	5 per cent Dividend on Cumulative Second Preference Shares (of which £3,958 was paid prior to March 31st, 1951) 5,000		
6,600	Proposed 9 per cent Dividend and 2½ per cent Bonus on Ordinary Shares 8,433		
42,850		41,222	
3,710			190
£11,430	Surplus at March 31st, 1951		£11,620

*NOTE: *Owing to a change in account classifications there has been a compensating alteration to these figures for 1950 – this does not affect the Net Profit for that year.*

EXPLANATORY PROFIT AND LOSS STATEMENT

For the Year ended March 31st, 1951

(Showing Corresponding Figures for the Previous Year)

1950		1951	
£		£	£
	Income:		
815,975	We received income from the sale of our products of	1,042,990	
5,848	We received other income, such as discounts, royalties, etc., of	10,047	
821,823	Which gave us a total income of		1,053,037
	Outgo:		
391,246	For materials and supplies used in our manufacturing	493,179	
133,946	For expenses (other than taxes, depreciation and wages) including factory, warehouse and shipping, selling and administration expenses	175,709	
10,513	For depreciation, representing an allowance which has been laid aside to replace buildings and equipment as those things wear out ..	12,348	
535,705	Total materials, manufacturing and distribution costs	681,236	
34,161	For pay roll and income-taxes	61,613	
569,866			742,849
251,957	**This left available for Employees, Shareholders and Future Needs**		310,188
	Which was divided as follows:		
205,397	For wages, salaries, sales commissions and contribution to staff superannuation scheme, provided for 549 employees (484 in 1950) ..	268,776	
13,850	For dividends to 252 shareholders (238 in 1950)	16,222	
32,710	Retained to promote growth and modernization of the business	25,190	

JANTZEN (AUSTRALIA) LIMITED

Statement of Financial Position

At March 31st	1951	1950	1949	1948	1947	1946
	£	£	£	£	£	£
Shareholders' Funds:						
Paid-up Capital:						
9% Cumulative First Preference Shares ..	35,000	25,000	25,000	25,000	25,000	25,000
5% Cumulative Second Preference Shares ..	100,000	100,000	100,000	50,000	49,377	—
Ordinary Shares	73,333	73,333	73,333	53,333	53,333	53,333
Reserves:						
Share Premiums	5,000	—	—	—	—	—
General ..	85,000	65,000	44,000	39,000	31,000	28,500
Contingencies..	20,000	15,000	7,000	—	—	—
Profit and Loss Surplus ..	11,620	11,430	7,720	6,547	5,441	4,644
£	329,953	289,763	257,053	173,880	164,151	111,477
Used in the Business as follows:						
Cash on hand	413	441	386	288	255	280
Accounts Receivable (Net)	173,375	145,574	53,683	40,520	35,859	49,504
Inventories ..	443,704	312,367	270,495	224,042	104,899	78,588
Deferred Charges	316	254	78	162	162	364
Current Assets	617,808	458,636	324,642	265,012	141,175	128,736
Current Liabilities	411,989	275,541	162,912	183,929	65,815	96,946
Working Capital	205,819	183,095	161,730	81,083	75,360	31,790
Fixed Assets (Net)	114,134	96,668	85,323	82,797	78,791	69,687
Patents, Trade Marks, etc. (Net)	10,000	10,000	10,000	10,000	10,000	10,000
£	329,953	289,763	257,053	173,880	164,151	111,477

JANTZEN (AUSTRALIA) LIMITED

Statement of Operations

For Years ended March 31st	1951	1950	1949	1948	1947	1946
	£	£	£	£	£	£
Sales	1,042,990	815,975	520,501	401,834	300,511	205,603
Other Income (Discounts, Royalties, etc.)	10,047	5,848	3,420	2,109	1,653	509
Gross Income ..	1,053,037	821,823	523,921	403,943	302,164	206,112
Costs and Expenses	956,625	746,063	478,803	378,787	275,582	194,460
Net Profit (before taxes)	96,412	75,760	45,118	25,156	26,582	11,652
Income Taxes ..	55,000	29,200	20,000	10,000	15,715	4,400
Net Profit (after taxes)	41,412	46,560	25,118	15,156	10,867	7,252
Appropriated to Reserves	25,000	29,000	12,000	4,500	2,500	—
	16,412	17,560	13,118	10,656	8,367	7,252
Dividends to Shareholders	16,222	13,350	11,945	9,550	7,570	7,050
Surplus for Year	190	3,710	1,173	1,106	797	202
Surplus from Previous Year	11,430	7,720	6,547	5,441	4,644	4,442
Surplus to Next Year	£11,620	11,430	7,720	6,547	5,441	4,644
Percentage of Net Profit (after taxes) to Sales	*3·97*	*5·70*	*5·12*	*4·06*	*4·10*	*3·53*

Gray's Quarterly

The best so far, is the quarterly statement to shareholders of Gray's Carpets and Textiles Ltd. So far as we remember only one other British company issues a quarterly statement. The second quarterly from Gray's Carpets has recently been issued. We give it in its entirety.

The statement reads: 'For the three months to June 30th, 1951, the group profits before loan interest and taxation were £163,182, after providing £156,442 for the depreciation of unsold wool stocks to replacement values. This figure compares with a profit of £269,968 for the three months to March 31st, 1951, and £1,003,595 for the twelve months ended December 31st, 1950.

'Since June 30th the decline in commodity values has continued and less favourable trading conditions have been accentuated in the carpet division by the recent statement regarding carpet prices made in the House of Commons by the Parliamentary Secretary to the Board of Trade.

'This announcement led to cancellation of both home and export orders and forced us to adopt a policy of reducing output in our carpet factories, which, to the company's great regret, has prevented the maintenance of full employment. In view of the later developments in relation to carpet prices, it is hoped that these conditions are only temporary, but they are bound to affect the profits for the current quarter.'

Plant Register

The directors of The Tunnel Portland Cement Co Ltd have this year completed the 'formidable task' of compiling a plant register for the West Thurrock works. By so doing, they are able to make a much-needed adjustment to the fixed assets figure.

Additions to fixed assets during the year amounted to £739,002. From this is deducted £178,548 in respect of plant scrapped or sold during the year, leaving net additions at £540,454. At the same time, £159,148 has been eliminated from accumulated depreciation so that the net adjustment is only £19,400. After these adjustments have been made, the chairman explains, the balance sheet figures represent as they should do, the cost of and the depreciation written off property, plant and equipment which were actually in existence at balance sheet date.

These adjustments were not possible before, he explains, because there was no register of the West Thurrock plant. When in previous years the company disposed of plant, it was only possible to eliminate the written-down value from the cost figures, leaving depreciation unchanged, which meant that although the total written-down figure was correct, both the cost and depreciation amounts contained balances in respect of plant no longer in existence.

Money Market

Treasury bill applications totalled £346,005,000 on September 7th, and with £260 million of bills on offer the market obtained 66 per cent of requirements by maintaining the bid at £99 17*s* 5*d*. The average rate was 10*s* 2·95*d* per cent and this week's offer of bills is £250 million. There is no call against Treasury deposit receipts this week.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Finance Act, 1951, Section 21

SIR, – May I suggest that the comments in your issue of August 25th on Section 21 of the Finance Act, 1951, overlook the very unfair effect on the taxpayer which it may have?

The case of *Goodlass Wall & Lead Industries Ltd v. Atkinson* (29 A.T.C. 164) established that where an additional source of Case V income was acquired and income first arose from it in a subsequent year, the income was assessable for the first time in the following year. You say that the effect of this decision was that in many cases a year's income might escape assessment altogether. No doubt this result was in certain circumstances possible, but on the other hand the effect of the Revenue authorities' unsuccessful contention, which they have now succeeded in establishing by Section 21, is that in many cases a year's income will be taxed twice.

The new enactment provides that in the circumstances indicated above, as, for example, where the source of income is acquired in year 1 and held until year 10 and produces income in years 4 to 8, the 'commencement' provisions will apply. Unfortunately for the taxpayer, however, the 'cessation' provisions do not apply in such a case. Accordingly, in the above example, five years' income will be subjected to six years' tax.

It is surely probable that such a case is likely to arise very frequently. It seems, therefore, that if serious hardship to the taxpayer is to be avoided the law will have to be amended.

All these difficulties could be overcome if the 'actual' basis were uniformly adopted: it is unfortunate that the authorities opposed this suggestion so strongly before the Millard Tucker committee.

Yours faithfully,

London, EC2. U. STEWART.

[We agree that cessation provisions ought to apply in such cases. – Editor.]

Heating and Sanitary Engineers: Profit Percentage

SIR, – In reply to your correspondent's query in the issue dated July 28th, 1951, there is no customary rate of profit in this industry, but experience with several firms shows that the business employing skilled fitters and office staff of three including a draughtsman cannot make a satisfactory return unless 70–80 per cent is charged upon direct wages and 15–20 per cent on materials.

May I mention that this question is discussed in my book *Business Methods and Organization for Heating and Ventilating Engineers.*

Yours faithfully,

St Albans, Herts. ARTHUR W. HOPKINS.

Liability for Damage

SIR, – At a recent meeting between a shipper of goods and forwarding agents, during the course of a discussion on the liability for damage, the following verses were handed to the shippers, with the happy result that the whole matter was amicably settled.

I thought the verses so clever and amusing that your readers might be interested to see them.

Yours faithfully,

London, WC2. STANLEY W. SMILES.

It is much to be regretted
That your goods are slightly wetted
But our lack of liability is plain,
For our latest bill of lading –
Which is proof against evading –
Bears exceptions for sea water, rust and rain;
Also sweat, contamination,
Fire and all depreciation
That we've ever seen or heard of on a ship.
And our due examination,
Which we have made at destination,
Shows your cargo much *improvéd* by the trip.
Furthermore, the protest shows
That the master blew his nose,
And the hatches were demolished by the gale.
Oh, we'll all stick together
To prove it's heavy weather,
For we've got the cargo owner by the tail.
So reserving all defences,
Alibis and false pretences,
We suggest that your underwriter man
Is the guy that's out of luck.
(We always pass the buck.)
Yes – we always duck the issue if we can.
'Tis a cause of grief sincere
And we almost weep to hear
You are claiming for your cargo wet by rain.
It really is a crime
That you're wasting all your time,
For our bill of lading clauses make it plain
That from ullage, rust or seepage
Water, sweat or just plain leakage,
Act of God, restraint of princes, theft or war,
Loss, damage or detention,
Lock-out, strike or circumvention,
Blockage, interdict or list 'twixt ship and shore,
Quarantine or heavy weather,
Fog and rain or both together,
We're protected from all these and many more,
And it's plain to see
That our liability
As regards your claim is absolutely nil.
So try your underwriter,
He's a friendly sort of blighter,
And is pretty sure to grin and foot the bill.

Orthodox Profits

SIR, – In nearly all books, plays and films about successful business men, success is achieved by following the elementary principle of buying low and selling high. In other words, these business men succeed in amassing large fortunes because they have the foresight enabling them to take advantage of recurring periods of inflation to create profits for themselves and to sell out at the peak, thus avoiding the losses consequent on subsequent deflationary periods.

Is one to understand that the advocates of replacement value accountancy would not regard these business men as having made their fortunes, on the grounds that if they had to recommence in business after retirement, they would have to spend the greater part of their fortunes on the purchase of fresh plant, stock, etc.?

It seems to me that business consists of a continuous series of ventures – some small, some of medium size, and some large, but all undertaken with a view to profit. In the process, the plant, fixtures, etc., which were acquired at the commencement of the series, become worn out or obsolete. If the whole cost of this plant etc. is charged (along with the other relevant expenses) to the series of ventures coincident with the useful life of the plant etc., surely any surplus then remaining on that series can be regarded as true profit?

Fresh series of ventures should surely be financed out of savings from previous profits; it seems to me, therefore, that any provision made out of current ventures for replacement of fixed assets should be regarded purely as a reserve put aside out of profits and not as an expense chargeable in arriving at such profits.

Yours faithfully,

Leeds, 7. A. G. KASSELL, A.C.A.

Valuation of Stock

SIR, – The importance attached by the Institute to the discussions of inventory pricing presented in its Recommendation X, and the address of Mr Garfield G. Goult, F.C.A.,[1] prompts me to offer some comments on the theorectical and practical questions involved and differences between English and American attitudes.

On the theoretical side we encounter at the outset the semantic difficulty arising from the uses of the word 'valuation' which plague us at every turn in accounting discussions. Surely it is time for the accountants of the world to agree on some term other than valuation to describe a monetary ascription that is not a measurement of worth.

What is called 'valuation' in the documents mentioned is determined by conflicting concepts, by consideration of 'cost', of 'value', of the desirability of avoiding distortion, and by the desire to present both a fair income determination and a fair balance sheet.

In the United States the emphasis today is on the income statement, and the balance sheet is regarded as a residual of investment, not of value (*Accounting Research Bulletin*, No. 29). But this is not regarded as satisfactory and the Study Group on Concepts of Business Income has in its discussions recognized the desirability of securing more significant statements of financial position as well as more significant determinations of income.

In a paper read at the International Congress of Accountants in 1929, I expressed the view that:

> 'Corporations have generally forsaken the old debit and credit account form of income statement for the narrative form which is more intelligible to the layman though less elegant in the eyes of the technician. They need to do something of the same kind for the balance sheet which is, even more than the old income account, a creation of technique. It should be made clearer to the general public that only in part is a balance sheet in the nature of an instantaneous picture and that in part it is merely historical and in part purely conventional. . . .
>
> 'An annual report which contains a series of separate statements including: (1) a well-arranged income and surplus account; (2) a classified statement of quick assets and liabilities; (3) summaries of capital obligations and capital assets; and (4) a lucid statement of resources which have become available during the year, and the disposition thereof, will not gain greatly by the addition of a balance sheet in which all assets and liabilities are brought together, though custom and a sense of completeness may call for its inclusion.'

The subject might well be selected for discussion at the Congress to be held in 1952.

The reduction of market value is a step in the determination of realized profit in America, not as in the English view a reservation out of ascertained profits to provide for an anticipated loss.

On the American theory only useful costs may be carried forward, and to the extent that the cost of inventoriable goods exceeds their value at the date of inventory, they are not regarded as 'useful' costs. This view makes it unnecessary to consider such questions as whether the cost per unit of the part of a lot purchased that remains on hand can always be deemed to be the same as the cost per unit of the part of a lot that has been sold. The existence of quantity discounts coupled with the problem of slow-moving remainders creates doubts whether the question can properly be answered in the affirmative.

Like the Institute, and as is usual in such discussion, Mr Goult starts out boldly by talking of principles, but by the time he reaches paragraphs 38 and 39 he has become concerned rather with such problems as 'distortion' and the exercise of 'judgment' and the principles have receded into the background.

The introduction and gradual elaboration of the LIFO method is undoubtedly the most important theoretical development in the history of American inventory accounting. It is now becoming generally recognized that it rests on a basic principle that differs from that which underlies the FIFO or average methods. The kinship between LIFO and the principle

[1] 'Stock-in-trade and the auditor', reproduced in *The Accountant* of August 13th and 20th, 1949.

of providing for property exhaustion on the basis of current price levels is also becoming more and more widely recognized.

The Tucker Report and the action of Imperial Chemical Industries in restating its plant account point out the great social responsibility which the accounting profession is assuming by its unwillingness to re-examine the theories of accounting for inventories and capital assets which were developed in the period when the monetary unit was either increasing in value or at least regarded as relatively stable.

On the practical side, Mr Goult emphasizes the need for the assumption by the accountant of a greater degree of responsibility for the way in which quantities have been determined. In the United States accountants have gone further in this direction than English practitioners. At times they perhaps have gone too far, but the measures which Mr Goult suggests seem to be well conceived and not open to the objection that the accountant is asked to go beyond the field in which he may reasonably be expected to be competent. The paper well merits the endorsement which the President of the Institute has given it.

Yours sincerely,

New York, 5. GEORGE O. MAY.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

At a meeting of the Council, held on Wednesday, September 5th, 1951, at the Hall of the Institute, Moorgate Place, London, EC, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., M.A., Vice-President; Sir Harold Barton; Messrs J. Blakey, W. G. Campbell, B.A., P. F. Carpenter, S. W. Cornwell, G. R. Freeman, H. Crewdson Howard, W. R. MacGregor, K. A. E. Moore, P. Morgan-Jones, L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., C. M. Strachan, O.B.E., E. G. Turner, M.C., and the Secretary.

The following resolutions were passed:

(1) That certificates of practice be issued to the following thirteen associates who have commenced to practise:

Barnes, Norman Henry; 1951, A.C.A.; 169 The Vale, Golders Green, Middlesex.
Bass, Arthur Norman; 1950, A.C.A.; (Barron, Bass & Co), 2 Clement's Inn, Strand, London, WC2.
Brown, Edmund Stanley; 1949, A.C.A.; 14 The Close, Birchanger Road, Woodside Green, London, SE25.
Russell, Donald Arthur, M.B.E.; 1950, A.C.A.; (Russell Tillett & Co), 18 St Swithin's Lane, London, EC4, and at Bradford and Manchester.
Filer, Roy Montague; 1950, A.C.A.; 18 Oakleigh Gardens, Edgware, Middlesex.
Hawker, Peter John; 1949, A.C.A.; 4 St James Road, Sutton, Surrey.
Ingham, Hugh Cedric; 1947, A.C.A.; (Langley, Stuttard & Co), 31 Carr Road, Nelson, Lancashire, and at Burnley.
La Costa, Henry Bernard; 1951, A.C.A.; 'Mount Pleasant', Buxton Avenue, Carlton, Notts.
Midgley, Eric; 1940, A.C.A.; (Russell Tillett & Co), Curzon Buildings, 38 King Street West, Manchester, 3, and at Bradford and London.
Princep, Clifford Bert; 1951, A.C.A.; 4 Princess Street, Wolverhampton.
Turvey, Leonard Thomas; 1927, A.C.A.; 32 Monksdene Gardens, Sutton, Surrey.
Waldron, Robert Sydney; 1945, A.C.A.; (Greenslade & Co), 297–302 Dashwood House, Old Broad Street, London, EC2, and at Northampton.
Watson, Alec; 1941, A.C.A.; (Langley, Stuttard & Co), 12 Hargreaves Street, Burnley, and at Nelson.

(2) That fifteen associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That ninety-nine applicants be admitted as associates under clause 5 of the Supplemental Charter (Bye-law 31).

(4) That four hundred and fourteen applicants be admitted as associates under clause 9 of the Supplemental Charter (Bye-law 36).

A list of those who complete their fellowship or membership before September 18th will appear in *The Accountant* of September 22nd.

The Institute of Chartered Accountants in Ireland

The quarterly meetings of the Council and Examination Committee of The Institute of Chartered Accountants in Ireland were held on August 31st, 1951.

Present: Messrs H. E. A. Addy, *President*, in the chair; P. Butler, *Vice-President*; J. Bailey, W. H. Fitzsimons, E. T. McCarron, H. Trevor Montgomery, E. P. O'Carroll, P. J. Purtill and G. Hill Tulloch, with the secretary–treasurer, Mr Wm. E. Crawford, and the joint secretary, Belfast, Mr Hugh Stevenson, in attendance.

Apologies for absence were received from Messrs F. Cleland, W. L. H. Rodden, and R. Stanley Stokes.

The resignation of Mr R. Stanley Stokes, Dublin, from the Council, after over twenty-two years' service, was accepted with the greatest regret; and on the proposal of the President (Mr Addy), seconded by the Vice-President (Mr Butler), a unanimous resolution of appreciation of Mr Stokes's many services to the Council and the Institute, of which he has been a member since 1910, was passed. Mr Stokes, who was President of the Institute in 1941–43, is the senior partner in the firm of Stokes Bros. & Pim, founded by his father, Mr Robert Stokes, one of the original signatories to the petition for the Royal Charter – who was also a member and President of the Institute (from 1900 to 1910) – and by his uncle, Mr Sidney Stokes, who was the first secretary-treasurer of the Institute on its formation in 1888.

The untimely death, on August 13th, of Mr Hector John Kennedy Sinclair, F.C.A., partner in the firm of Wilson, Hennessey and Crawford, Belfast, at the early age of 45, was reported and noted with the deepest regret, and the Secretary was instructed to convey the sympathy of the Council to his partners in the firm, one of whom is Mr F. Cleland, member of the Council.

Mr Cornelius Christopher Frederick Smith, partner in Briscoe, Smith & Co, Dublin, was admitted to Fellowship.

Mr Charles Hedley Nicholson, A.C.A., partner in Messrs Price Waterhouse & Co, London, and Mr Kieran Edward O'Grady, A.C.A., Dublin, were admitted to Practice.

The following successful candidates at the Final examination in May 1951, were admitted to membership as:

Associate in Practice

Malachy Bernard McGrady (Downpatrick).

Associates not in Practice

John Raymond Carroll (Dublin), James Charles Roland Daly (Dublin), Donal Michael Duff (Dublin), Victor Forbes (Belfast), Robert Cochrane Irons (Ballymena), Henry Joseph Kearns (Dublin), Francis McKeown (Strangford, Co. Down), William Bernard Mulligan (Dublin), Guy Beresford Campbell Neill (Belfast), George Claude Revill (Belfast), John Robinson (Belfast), William Desmond Rutledge (Belfast), and William Desmond Sargent (Dublin).

It was decided to hold the next Preliminary, Intermediate, and Final examinations in Belfast and Dublin on November 20th to 23rd, 1951.

The usual grant of £175 was made to the Dublin Society of Chartered Accountants for the year ending August 31st, 1952; and it was noted that the Society had accepted the Council's offer of three rooms on the second floor of the Institute's premises, 7 Fitzwilliam Place, Dublin, for its offices, library and reading-room in lieu of the present accommodation.

A sub-committee was appointed to consider the possibility of making arrangements for the resumption this year of annual dinners – in Dublin and Belfast alternately – which were discontinued during the war.

The Vice-President, Mr Butler, reported on meetings of the Council and Committee for the Sixth International Congress on Accounting in London in June 1952, at which he had recently represented the Institute; and arrangements in connexion therewith were considered, including the entertainment of overseas delegates who may visit Ireland after the Congress.

EXAMINATIONS

The Council of the Institute announces that the next Preliminary, Intermediate and Final examinations will be held on November 20th, 21st, 22nd and 23rd, 1951, in Dublin and Belfast.

Intending candidates should send in their applications on or before October 1st, 1951. Forms of application can be obtained from the Secretary, 7 Fitzwilliam Place, Dublin.

Professional Note

Mr Douglas A. Clarke, LL.B., F.C.A., of Messrs Pannell, Crewdson & Hardy, Chartered Accountants, has been appointed a General Commissioner of Income Tax for the City of London.

Personal

MR FRANK H. S. McDAVID, C.A., and MR GEOFFREY FINCHETT THORNTON, F.C.A., practising under the name of CHARLES HENRY SYMONS & Co, announce that they have transferred their principal office to 21 Joy Street, Barnstaple, N. Devon; telephone: Barnstaple 2282. The practice will be continued under the name of McDAVID & THORNTON.

MESSRS LUBBOCK, FINE & Co announce that they have now moved to 6 Little Russell Street, Holborn, London, WC1. Telephone: Chancery 3044 (5 lines.)

MESSRS JONES, ROBATHAN, THOMPSON & Co, Chartered Accountants, announce that they have opened an office at 29 High Street, Chepstow, Mon. Telephone: Chepstow 588.

The partners of CLARK, BATTAMS & Co, Chartered Accountants, announce the retirement as from August 31st, 1951, of their senior partner, Mr HARRY E. CLARK, F.C.A., who has been a partner in the firm since 1903. They also announce the admission as a partner as from September 1st, 1951, of Mr DERRICK H. ORTMANS, M.A., A.C.A.

Obituary

HERBERT EDWIN NOWELL, A.C.A., C.P.A.

We have learned with regret of the death while on holiday at Innsbruck, Austria, of Mr H. Edwin Nowell, A.C.A., C.P.A. Mr Nowell, who was 67, had been a partner for thirty-two years in the San Francisco firm of Robinson, Nowell & Co, certified public accountants.

Born in Bristol, Mr Nowell was admitted an associate of the Institute in 1906; he shortly afterwards emigrated to the United States where he held several appointments, among which was that of chief accountant with The Madera Company, Mexico; later he served on the staff of the California Railroad Commission. After wartime service in Washington with the War Department he took his California certificate as a C.P.A. and joined in the founding of the firm of Robinson, Bours & Nowell in the general practice of public accounting. In 1925, with the withdrawal of Mr B. W. Bours, the firm name became Robinson, Nowell & Co.

Mr Nowell was widely recognized on the Pacific coast as an authority on lumber accounting, in which he specialized. Besides his membership of the Institute of Chartered Accountants in England and Wales, Mr Nowell was a member of the American Institute of Accountants, the California Society of Certified Public Accountants, and other professional organizations.

East Anglian Society of Chartered Accountants

The seventh residential tuition course for articled pupils will be held at the Assembly House, Theatre Street, Norwich, from Monday, October 1st to Saturday, October 6th next. Details can be obtained from Mr H. Robinson, F.C.A., honorary secretary of the Society, Bowmaker House, 10 Redwell Street, Norwich.

New Treasury Statement on Dividends

A statement was issued by the Treasury last Tuesday evening, on its attitude in regard to certain aspects of the proposed legislation on the limitation of dividends. Announcing that distributions of profits made by wholly-owned subsidiaries to a parent company are to be excluded from control, the statement reads:

It is the intention of the Chancellor of the Exchequer to provide that the legislation on the control of dividends to be introduced into Parliament shall allow for the exclusion from control of distributions of profits made by wholly-owned subsidiaries to the parent company. This will cover companies which were wholly-owned subsidiaries of a parent company on July 26th last and continue to be so, where all the capital with the rights to participation in distributions of dividends (other than fixed-rate dividends) is owned by the parent company.

In view of inquiries which have been made, it should be made clear that the Treasury cannot give rulings in individual cases under paragraph (6) of the White Paper on the Control of Dividends, in advance of forthcoming legislation. It is for the companies concerned to reach their own decisions where such decisions are urgently called for, having regard on the one hand to their own circumstances and the announced intentions of the proposed measure, and on the other to the possibility that they may be faced with reducing future dividends in accordance with the penultimate sentence of paragraph (7) of the White Paper. Applications urging exceptional circumstances will be considered on their merits when the Act is in force in accordance with its provisions.

In this connexion, consideration has been given to certain cases of companies carrying on established businesses where, in particular instances, dividend standards may be inappropriate: for example, where a holding company has recently been interposed whose standard is smaller than that of the company acquired; or where a successful family or similar business where profits had for the most part been ploughed back has recently become a public company. Bona fide cases of this sort will be considered, but no individual rulings can be given in advance of legislation.

The Chancellor has taken note of the case of rubber-producing companies deriving their income from properties in the Far East which have been overrun by the enemy, but no decision in accordance with paragraph (6) of the White Paper can be announced in advance of legislation being introduced into Parliament.

'Finance Act, 1951 – III'

PROFITS TAX: DIRECTORS' REMUNERATION

A correction should be made in the first column of our article on the Finance Act on page 215 of our issue dated September 8th. In considering the maximum deduction where there are more than two full-time directors (other than whole-time service directors), we said that the £3,500 was increased by the lesser of £1,000 and 'the remuneration of the two lowest paid "working directors" added together'. This last phrase should have read 'the remuneration of all the "working directors" other than the two highest paid'.

Manchester Society of Chartered Accountants

The winter programme of meetings of the Manchester Society of Chartered Accountants commences on Monday, October 1st, with an address by Mr F. A. Gahan, a Principal Inspector of Taxes, on 'Double taxation relief'. Meetings will be held at monthly intervals and other addresses to be given include: 'The effect of taxation upon industry and the individual', by Mr E. G. Turner, M.C., F.C.A.; 'The meaning of equity holdings', by Mr E. H. Davison, A.C.A.; 'Practical advice to clients upon death duties', by Mr J. Linahan, F.S.A.A. (this will be a combined meeting with the Incorporated Accountants' Society of Manchester and District in the Incorporated Accountants' Hall, Deansgate, Manchester); and 'Where the Companies Act, 1948, fails', by Mr H. T. Nicholson, A.C.A.

All the meetings, with the one exception mentioned, will be held in the Chartered Accountants' Hall, 60 Spring Gardens, Manchester, at 6 p.m., preceded by tea at 5.30 p.m.

Lectures in Leeds for November Examination Entrants

The joint tuition committee of the Leeds, Bradford and District Society of Chartered Accountants and the Leeds and District Chartered Accountant Students' Association, has arranged a Saturday morning lecture series to be held at the Church Institute, Albion Place, for both Intermediate and Final students entering for the Institute's November examinations.

The first lectures are being given today by Mr G. Neil Glover, LL.B., solicitor, and Mr E. N. Marsham, solicitor, to Intermediate and Final students respectively, on 'Elements of commercial law', and 'Contract law'. A lecture will follow by Mr Harold Bolton, F.C.A., President of the Leeds, Bradford and District Society, who will address both groups on the subject of 'Sur-tax'.

The series ends on November 17th with an income-tax quiz for students' problems, when Messrs Victor Walton, F.C.A., John L. Wilson, F.C.A., and A. D. McLaren, M.B.E., A.C.A., will form the answering panel.

Lectures on Taxation

Accountants wishing to revise their knowledge of taxation law and practice, and students preparing for the various professional examinations, are reminded of the two courses of seven lectures each, mentioned in our issue of September 1st, which are to be held at Kingsway Hall, Kingsway, London, WC2.

JOHN FOORD & COMPANY
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VALUERS AND ASSESSORS
OF WORKS, FACTORIES, Etc.

The lectures will be given on Wednesdays and Thursdays at 6.15 p.m., and will commence on September 26th and 27th. The fee for each course is £1 1s, admission cards being obtainable from Mr Ernest T. Green at Kingsway Hall.

Annotated Tax Cases

The second part of Volume XXX of the *Annotated Tax Cases*, edited by Mr Roy Borneman, of Gray's Inn, Barrister-at-Law, which is published today, contains reports and notes on the judgments of the following ten cases: *Crole v. Lloyd* (Ch.D.); *Albion Rovers Football Club Ltd v. C.I.R.* (C.S.); *MacMahon and MacMahon v. C.I.R.* (C.S.); *In re A. & D. Fraser Ltd* (C.S.); *Sharp's Trustees v. Lord Advocate* (C.S.); *In re Lander* (Ch.D.); *Drummond v. C.I.R.* (C.S.); *Rellim Ltd v. Vise* (Ch.D.); *Asia Mill Ltd v. Ryan* (H.L.); *Davies v. Shell Company of China Ltd* (C.A.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

Recent Publications

TAX CONVENTIONS BETWEEN THE SWISS CONFEDERATION AND THE UNITED STATES, by Dr Mitchell B. Carroll and Dr Kurt Locher. 53 pp. 9½×6½. Swiss frs. 7·20; $1·65. International Bureau of Fiscal Documentation, Amsterdam.

THE PROFITS TAX SIMPLIFIED, Third edition, by Arthur Rez, B.COM.(LOND.), F.R.ECON.S., F.A.C.C.A. 34 pp. 8½×5½. 4s net, 4s 4d post free. Barkeley Book Co Ltd, Stanmore, Middlesex.

INTERNATIONAL COMBINES IN MODERN INDUSTRY, third edition, by Alfred Plummer, B.LITT., M.SC.(ECON.), LL.D. ix+309 pp. 9×5½. 25s net. Sir Isaac Pitman & Sons Ltd, London.

ACCOUNTANCY QUESTIONS AND KEY, by William Pickles, B.COM.(VICT.), F.C.A., A.S.A.A.(HONS.), F.R.S.A.; second edition in conjunction with G. W. Dunkerley, M.C., A.C.A. viii+664 pp. 9×5½. 35s net. Sir Isaac Pitman & Sons Ltd, London.

STUDIES IN PRACTICAL BANKING, third edition, by R. W. Jones, F.I.B. xvii+323 pp. 9×5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.

HANDBOOK ON ACCOUNTING, STATISTICS AND BUSINESS OFFICE PROCEDURES FOR HOSPITALS, Section I, Uniform Hospital Statistics and Classification of Accounts. x + 155 pp. 9 × 6. American Hospital Association, Chicago.

Our Contemporaries

THE SECRETARY. (September.)

DISTRICT BANK REVIEW. (September.) 'Accounting as Metaphysics', by Dr Colin A. Cooke, Fellow and Bursar of Magdalen College, Oxford.

THE CONTROLLER. (New York.) (August.)

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (August.) 'Non-Profit Institutions Accounting.'

JOURNAL OF THE SAVINGS BANKS INSTITUTE. (September.) 'Report of the Annual General Meeting of the Savings Banks Institute, Edinburgh, 1951.'

Other Publications Received

AHORRO. (Buenos Aires.) (April.)
ENGINEERING INDUSTRIES BULLETIN. (August–September.)
REVISTA DE CIENCIAS ECONOMICAS. (Buenos Aires.) (March–April.)
LA GAZETTE FISCALE COMMERCIALE ET INDUSTRIELLE. (Alexandria.) (May–June.)
MONTHLY REVIEW OF THE BANK OF NOVA SCOTIA. (Toronto.) (July–August.)
THE CERTIFICATED ACCOUNTANT. (August.)
JOURNAL OF THE ROYAL SOCIETY OF ARTS. (September.)
THE COMMERCIAL ACCOUNTANT. (July.)
THE INDIAN CHARTERED ACCOUNTANT. (New Delhi.) (July.)
THE BUILDING SOCIETIES' GAZETTE. (September.)
THE SECRETARY. (Sydney.) (July.)
JOURNAL OF THE INDIAN INSTITUTE OF ACCOUNTANCY AND TAXATION. (New Delhi.) (August.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 16th, 1876

To the Editor of 'The Accountant'

Public Accountant

SIR, – Your article in last Saturday's issue upon the above title has no doubt been written more with the intention of obtaining the opinions of the members of the profession, than with the view of arbitrarily deciding the question at issue.

I submit, sir, that the term 'public accountant' is still a necessity, to distinguish between the accountant 'employed by a private firm of traders or a public company, and one who is employed by the public generally'; and that it is a convenient and comprehensive designation, being understood by the public as meaning that such an accountant seeks its patronage, and is prepared to serve it in the capacity of financial adviser, auditor, trustee, etc.

It seems to me a pity to alter a familiar designation, unless some real good can be effected by the change.

Yours etc.,

Sheffield, September 11th, 1876. P. A.

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Photograph: Some Personalities at the 1951 Summer Course of The Institute of Chartered Accountants in England and Wales

CONTROL OF DIVIDENDS

THE difficulties and doubts surrounding the dividend limitation position have been lessened a little, but only a little, by the Treasury announcement of September 12th.[1] This covered three main points. In the first place, it stated that wholly-owned subsidiaries to a parent company will be excluded from the dividend control legislation it is proposed to pass in the autumn. No logical case for the inclusion of such companies could have been made and their exclusion is therefore a concession to common sense. But many will ask why the logic has stopped at that point. Some companies have allowed small minority interests to remain in their subsidiaries. On the face of it, it seems that if minority interests exist at all, no matter how insignificant they are, dividend limitations will apply.

The other two points covered by the announcement are more negative in character. They amount to a public washing of hands by the Treasury, pending the passing of the relevant Act, in the matter of permitted exceptions. To quote from the statement:

> 'In view of inquiries which have been made, it should be made clear that the Treasury cannot give rulings in individual cases in advance of forthcoming legislation.'

The onus of the decision to pay more than the maximum laid down in the White Paper when exceptional circumstances exist is left with the firm. Yet a hint is given that the Act (if it ever is passed) will make some provision for the cases where, for example, a holding company has recently been interposed whose standard is smaller than that of the company acquired; or where a successful family business, whose profits had for the most part been ploughed back, has recently become a public company. But these must wait until the measure has become law.

The announcement refers specifically to the case of rubber-producing companies deriving their income from properties in the Far East which have been overrun by the enemy. It will be recalled that the special position of these companies was the subject of a recent representation to the CHANCELLOR by the Rubber Growers' Association. The announcement says that the CHANCELLOR has taken note of this case, but again reiterates that no decision can be given in advance of legislation. No reference is made to Malayan tin and other overseas operations which may be equally deserving of consideration.

It is of interest, in this respect, to note that three Rhodesian copper producers have recently declared dividends in excess of the proposed minimum. The whole situation is an example of the confusion which arises when regulation in advance of legislation is attempted.

[1] Reproduced in *The Accountant*, September 15th, 1951, at page 255.

COSTING FOR INFLATION

A wider interpretation of integrated cost and financial accounts

by A. H. TAYLOR, M.C., A.A.C.C.A.

MY justification for adding to the wealth of words which have been uttered on the subject of inflation accounting is to point out what appears to be a simple but important omission from the debate. Recent discussion has centred on the correct basis for the depreciation charge. Whilst no generally accepted practice has yet resulted, the trend of opinion seems to be directed towards continuing to charge depreciation on original cost, and to make a separate entry in the profit and loss account to cover replacement costs which are likely to be in excess of the depreciation charged in the accounts, whether or not assets are revalued.

Such a method has received fairly widespread approval amongst accountants perhaps because it is neat and tidy in execution, and involves no radical departure from established conventions – the excess replacement costs representing an appropriation made after the trading profit has been computed. But this procedure affects only the financial accounts; and apparently the more domestic statistics of industry, such as job and departmental cost figures, will continue to show no reflection of rising prices so far as the depreciation element in those figures is concerned.

False Pictures

As an overhead charge, and a 'fixed overhead', depreciation is often included in factory cost, and in some form or another it finds its way into the total cost of each job as presented to management and the sales department. If job costs include depreciation calculated on original cost alone, anomalous and false pictures of efficiency and profitability will be presented to management in the guise of truth. Such false pictures are undoubtedly being prepared at the present time. A factory which acquired its plant many years ago may well show job costs indicating greater profitability on sales than those drawn up in another factory whose plant was purchased at recent high prices, but which produces the same article with greater economy of time, labour and material, and sells at the same price. In any one factory a comparison of the profitability on individual products is quite misleading where the various items of plant were purchased at different price levels, and the use of the plant varies as between one job and another. This, of course, is the situation in the vast majority of companies.

If it is objected that overall job costs, i.e. those which include depreciation amongst other overheads, should not be used for measuring efficiency, then a re-education in the use of costs is required, for, in the minds of most business men, efficiency is, with some justification, closely allied to profitability. Sales departments generally require an 'overall cost' as a basis for price fixing, and one vital question which the accountant is expected to answer is: how much money are we making on this job?

It is little help to reply that the sales of that job had made a contribution of £x to paying for the overheads of the business. Management is usually fully aware that the accuracy of the overhead element applied to prime cost depends on turnover, and requires definite figures to work on – not dissertations on the theory of cost.

A Major Function of Costing

If, on the other hand, overheads are allocated to the job, neither management nor the sales department will be impressed if they are told that the resulting profit has made no allowance for the replacement of worn out machinery, without which manufacture cannot continue.

The financial accounts may show quite clearly the cost of running the business as a whole, including the cost of keeping it running, by the inclusion of reserves for the replacement of assets, and, incidentally, the payment of tax, interest on capital, appropriations for development, etc. But a major function of costing is to show how the expenses set out in the financial accounts are allocated to products and departments, to the work or divisions which made those expenses necessary. The expression 'costing' surely implies the cost of keeping the capital intact. A loss is, in effect, a loss of capital – the capital with which the business started the period in question. It is therefore submitted that costing should represent a complete analysis of the financial accounts, including provisions and appropriations for maintaining the capital. The necessity for such a complete integration of cost and financial accounts has become of increasing importance in recent years, when the cost of

merely protecting the capital has risen by leaps and bounds.

A Suggested Job Cost Statement

It is suggested that provisions and appropriations of the nature referred to above should not be 'lost' in one composite figure of cost, but that a job cost statement might well be drawn up in something like the following form:

	£
1. Total variable cost	
2. Semi-variables	
3. Fixed cost	
Total historical cost ..	£
4. Maintenance of capital	
Current cost	£

Whilst the foregoing has been concerned with the necessity for allocating to costs a depreciation charge based on current replacement values, the argument inevitably leads to the costing of other charges necessary for the purpose of preserving the capital, such as appropriations for research, interest on capital at an equitable rate for the enterprise, and possibly tax. With such items included, the excess of sales receipts over 'current cost' will represent true profit, i.e. the additional amount which can either be put to general reserve as a genuine accretion to capital, or (if and when allowed by the Legislature) added to the dividend over and above the return the proprietors could expect if they had merely lent money to the concern. A fully developed system of budgetary control should embrace an estimation of the sum required for the maintenance of capital, in much the same way as the more conventional overheads are estimated. The cost returns will then show:

(*a*) a true comparison of cost and hence profitability between jobs for sale;
(*b*) a true comparison of efficiency between departments in the same factory;
(*c*) a true comparison of efficiency between factories producing the same product; and
(*d*) an accurate basis for price fixing.

Past Deficiencies

Clearly this wider interpretation of the meaning of integrated cost and financial accounts would involve some difficult decisions as to what is 'current cost' compared with provision for the future or allowance for past deficiencies. So far as the replacement costing of assets is concerned, it is perhaps necessary to point out that the following figures will appear in the accounts of a company when it first adopts the principle of replacement costing:

(1) The normal depreciation for the year based on the original cost of the assets;
(2) An amount to cover the current year's deficiency in this depreciation charge, representing the difference between the depreciation on historical cost and that based on present-day values;
(3) An amount to cover the accumulated deficiencies of past years.

How are these sums to be shown in job and departmental costs? The normal depreciation on original cost will be included as a matter of course and will appear under the third heading, 'Fixed costs', of the suggested form of cost statement shown above. The deficiency for the current year would be included under the fourth heading of the cost statement, 'Maintenance of capital'. The amount which refers to deficiencies of past years should not appear in statements of the current year's cost at all, for it represents an 'error' of the past which cannot now be rectified without great practical difficulties. In special cases, and for special purposes, it might be advantageous to recalculate past years' costs, such as in shipbuilding or heavy engineering work which extends over several years. But, in any case, a revision of the past will be of little assistance to management in maintaining present-day efficiency, for the assistance that accountancy offers depends to a large extent on comparisons of current costs and statistics. Similarly any allowance made in the financial accounts for a reserve or provision for future rises in prices should be omitted from integration with current costs.

'Replacement' Costing System Required

If accountancy is to fulfil its function as a really effective tool of management, and not merely a system of recording debit and credit, a realistic and generally acceptable method of costing for replacement values must be adopted; for there are indications that business leaders are beginning to regard conventional accountancy with suspicion.

A solution to the problem of accounting for inflation is on its way so far as the profit and loss account is concerned. I have endeavoured to draw attention to what I regard as an equally vital aspect of the general problem – whether costing is to reflect the inflated cost of replacing assets, and perhaps of other charges affecting capital. As it is of little help merely to state the problem, I have suggested a solution on broad lines, not dogmatically, but rather to promote debate.

NORTH AMERICAN COMMENTARY–XXVII

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
Professor of Accounting, McGill University, Montreal

Journal of Accountancy, New York, June and July.

Retirement Income for Professional Men

THE American Bar Association is said to favour legislation to allow self-employed professional men a tax credit or deduction for amounts put towards a retirement fund, since the Social Security Law now excludes them from old-age benefits. A bill has been introduced in Congress to permit the exclusion from gross income, in such cases, of either 15 per cent of earned income or $10,000, whichever is the less, if paid within the taxation year to a restricted retirement fund. Amounts distributed after retirement age would be taxable.

Relieving the Year-end Peak for Auditors

Pending more general adoption of the natural business year, Mr Leonard F. Beckers, C.P.A., outlines an interim method for dealing with the situation. Since most sizable companies in the United States have satisfactory quarterly, if not monthly statements, he advocates the selection of a date during the last quarter of the calendar year as an interim examination date for the auditor. It would be chosen with an eye to leaving normally a definite pattern of transactions between then and the year-end. Study of the final quarter's transactions for several years should establish reliability of the pattern. This procedure, says Mr Beckers, would merely go one step further than the present practice of substantiating book debts and inventories, when under proper control, as at dates other than the year-end. The requirements for this substantiation, be it noted, are much more exacting and definite in the United States than in Britain.

Retirement Reserve Accounting for Fixed Assets

Under 'Current accounting and auditing problems' the question of whether the retirement reserve method still finds general acceptance is fully discussed. This method is the American equivalent of accounting for fixed assets under the strict theory of the double-account system. Among commercial and industrial companies it ceased to be a generally accepted principle in America many years ago, and in the public utility field, after its hey-day in the 'twenties and early 'thirties, it is now found only on a greatly diminished scale. The National Association of Railroad and Utilities Commissioners, although chiefly responsible for its widespread adoption, abandoned it in favour of normal depreciation accounting in 1936. With reference to the British Transport Commission's rejection of the double account system, the fact is welcomed that the leading accountancy bodies in Britain and the United States have had their influence in the same direction. It seems necessary to comment, however, that in Britain the double account form has long been used together with normal depreciation accounting.

Accelerated Amortisation

Denouncing 'fuzzy thinking' on the subject, the July editorial speaks of the utter absurdity of saying that accelerated amortisation should be 'allowed' for tax purposes but not recognized as a cost in pricing products, on the grounds that the business man 'gets it twice'. Whereas in World War II 100 per cent could be written off during the emergency period, today only that portion applicable to a five-year emergency period may be amortised over five years, the rest being excluded. Hence it is emphasized that the amount of costs certified for accelerated amortisation is the most authoritative possible determination of cost.

Auditing Defence Contracts

Mr J. Harold Stewart, immediate past president of the American Institute, is reported to have urged the minimization of auditing of defence contracts by basing them as far as possible on competitive prices. Re-negotiation and income and excess profits taxes should ensure that no one profits unduly from defence business. Hundreds of thousands of man-hours spent on auditing without useful result might therefore be saved, with great relief to the accounting profession.

Law and Accountancy Inter-related

A lengthy symposium is given from the *Iowa Law Review*, which devotes its whole Winter, 1950, issue to the relationship between the two

professions. All the evidence suggests a trend towards co-operation and a growing recognition by lawyers that they need a sound knowledge of accounting principles. The editorial points out the real danger that, if lawyers and the Courts are unfamiliar with accounting principles and conventions, the gap may widen between actual business income and income for tax purposes, rate regulation, etc. Writing on this subject in the July *Accounting Review*, Professor James O. Eaton, of Michigan State College, rightly warns of the necessity for training lawyers in 'accounting' and not mere 'book-keeping', for the latter would 'convince the law student only that we are not a profession but rather skilled clerks'.

The Accounting Review,
Menasha, Wisconsin, July

Visual Aids in Teaching Auditing

An America which uses projectors with film strips for instruction in accounting is certain to seek in this direction some help in coping with the special difficulties of teaching auditing. Professor Robert Dinman of the University of Southern California, tells of the opaque projector which enables pages of books, actual working papers, etc., to be projected on to a screen, with the disadvantage, however, that the room has to be darkened. The machine which he considers most suitable has many features which help those who have the task of teaching auditing. It projects transparent materials on to a screen behind the operating instructor as he faces his class. He simply lays the material on a glass in front of him and if he points details with a pencil this is reflected on the screen. This new development undoubtedly has real possibilities. The one danger to be avoided, it might be remarked, will be that of treating auditing as a purely practical subject, with omission of much-needed theory and case law.

Allocation of Factory Costs

Professor John A. Beckett, of Massachusetts Institute of Technology, challenges the overemphasis on profit measurement which assumes that all overheads must be allocated but overlooks the fact that costs so allocated cannot properly be used for cost control. They are useless, for example, as a basis for discussion with the department foreman, if he has no control of overheads. Different costs serve different purposes and, while in the short run costs can be controlled only at their source, cost allocation is necessary for long-run pricing purposes.

Statistical Analysis for Accountants

Mr Philip Warriner, of General Motors Corporation, develops in some detail the advantages to accountants of the analytical techniques of statistics in the field of aid to management. He tells how economists, expecting to find a more complicated relationship, have proved by severe statistical tests that costs and expenses show a straight-line relationship to volume. Accountants are therefore justified in viewing a tendency to curve, as showing a lack of cost and expense control. Also, if such control is effective, differential costs tend to be constant between extremely low and extremely high volumes, which makes their calculation much easier. Mr Warriner urges that statistical measures are exact calculations which can be audited and so used by accountants in their reports without any loss of accuracy and consistency. He considers that a large firm should find it worth while to have at least one staff accountant with thorough training in technical analysis. What is needed, he says, is a manual on the subject prepared specifically for accountants, to illustrate the kinship between statistical measures and the averages and ratios familiar to the accountant.

The Canadian Chartered Accountant,
Toronto, June

The Profession in Canada

The editorial reviews the great changes in the accounting profession in Canada since pre-war days. The number of Canadian chartered accountants is now 4,445 as compared with only 1,998 in the last pre-war year. Also before the war none of the nine provincial institutes had any special right in the practice of the profession within the bounds of the respective Provinces. Today practice in Prince Edward Island and Quebec Province is, with limited exceptions, restricted to members of the two Institutes of Chartered Accountants. In Ontario other accounting societies are recognized, but required standards have to be met and practice in public accounting has been made subject to the jurisdiction of a public board on which all recognized societies are represented. In other Provinces similar developments are under discussion.

The Tucker Report: Stock-in-trade

Commenting on the Tucker Committee's refusal to recommend specific provisions for the valuation of stock-in-trade, the editorial regrets the rigid rules for valuation laid down by Canada. The Dominion Institute has repeatedly urged their deletion.

Professional Status

In a brilliant analysis of the criteria for professional status, Professor J. E. Smyth, M.COM., C.A., of Queen's University, comments that Canadian accountants seem more willing to adapt themselves to changes in income-tax law than to oppose them on grounds of accounting theory. There does indeed seem to be a tendency to accept provisions which cannot be regarded as sound accounting, though it is true, firm action by the profession has brought some change. Nevertheless, we are saddled with diminishing balance depreciation of an extraordinary kind and the recent budget is quite original in deferring for four years any provision for depreciation for income-tax purposes, in the case of new capital assets not connected with defence. Writing of fears of a trend in the professions generally towards extreme specialization, Professor Smyth says that government regulation of industry and commerce has contributed substantially to the private practice of many professional men, especially lawyers and accountants. He observes that accountancy seems to be the one profession most disposed to reach a *modus vivendi* with the State.

WEEKLY NOTES

The Institute's Summer Course

Details of the Institute's fifth summer course have been published in previous issues, and we now have pleasure in presenting our readers with a photograph of certain personalities specially taken on the second day at Christ Church, Oxford.

The Very Rev J. Lowe, M.A., Vice-Chancellor of Oxford University and Dean of Christ Church, and Lieut.-Colonel D. V. Hill, M.A., Steward of Christ Church, are included in the group, with the Institute representatives, group leaders, speakers, and certain members of the Summer Course Committee.

As we have already stated, we hope to reproduce the papers read during the course in later issues.

Has a Price Decline Begun?

Piquancy has been added to the tug-of-war between the shopping public and the retail trade (and behind the latter the wholesalers and manufacturers) by the advice tendered by a Minister of the Crown to hold off purchasing until further price falls occur. The political and economic implications of this move by a Cabinet Minister need not be discussed here. Apart from the controversy which this has aroused, there are signs that the public's reluctance to buy because it expects further price reductions is already having an effect.

The decision to reduce the price of carpets has quickly brought a mark-down in carpet prices in the West End of London, for instance. The question now arises whether carpets are going to be an isolated example, governed by special factors, or whether price reductions in household fabrics and furniture are going to follow. Normally the price trends of these groups are closely related. Carpets are not the only goods to come under the axe, however. Price reductions are beginning to appear in certain lines of women's wear in London.

These adjustments are not merely panicky manoeuvres by a few retailers. The recent downward movement of knitting wool prices was passed off rather casually by the wholesale and retail trades. The feeling behind it all is, however, very far from casual. In the knitwear and hosiery industry, for example, there is a very real apprehension of the effect of continued consumer resistance on production and employment. If there were to be a general fall in prices – if only for a short period – there might be quite a stress to be borne by business at the wholesale and the retail level. A shake-out, without chronic distress, would, of course, have its salutary aspects.

Britain's Continued E.P.U. Deficit

Ever since last April this country's balance with the European Payments Union has been receding. In that month its credit position reached a maximum – so far as current experience is concerned – and an ebb tide has gradually set in. The monthly settlement for August has left Britain with £67·3 million of a deficit to clear up. This is equivalent to about 188 million units of account which are rated at one unit per United States dollar. In settling this balance this country will have to transfer back the gold which it had accumulated from E.P.U. in the months up to March and the rest will be settled by drawing on this country's credit surplus with the Union.

Part of this deficit for August has been caused by the seasonal inflow of fruit and vegetables from the Continent and by the outlay of British tourists abroad. But this is not sufficient to account for the whole of the decline. Some of it must be caused either by a drop in Western Europe's purchases from the sterling area or by heavier imports by the sterling area from Western Europe – or both. It will be recalled that this country's account with E.P.U. is for the whole of the sterling area and not for this country alone.

This country's weak external trade position is thus becoming reflected in its dealing with the Union. If the present trend of a series of deficits went on it could become critical. It could mean among other things that this country's weaker external position, which is reflected in no small degree in the accumulation of funds by the rest of the sterling area in

London, was working itself out on the sterling area's trade position with Western Europe. It could mean that the sterling area was getting rid of its sterling by increasing its trade with the members of E.P.U. At the moment the rigours which could attend the worsening of this country's visible trade balance are being avoided just because the rest of the sterling area has not hastened to change all its mounting sterling assets into imports from places other than this country.

Bank Advances Rise Further

Over the quarter ended with August, bank advances forged further ahead. According to the quarterly returns of the British Bankers' Association, total advances reached £1,964 million last month compared with £1,895 million in May. The instruction issued by the Government in July on the restriction of bank accommodation to only essential uses did not come into operation until late in the period under review so it is impossible to tell if it has had any great effect on the supply of credit.

Whatever administrative injunctions may come out of Whitehall there is little doubt that inflationary pressure is building up over a wide range of industries for one reason and another and that this pressure is having an effect on the amount of credit which firms need to finance their current operations.

This fact seems to be coming out in the figures. Prominent among the industrial categories receiving higher advances in the quarter under consideration were cotton and other textiles excluding wool. The largest increases were recorded, however, by engineering (higher output and higher prices in the defence industries?), agriculture (a seasonal one before the harvest), and unclassified industries (suggesting general upward pressure).

Problems for G.A.T.T.

The sixth session of the members of the General Agreement on Tariffs and Trade meets this week at Geneva. There are on the agenda such items as the establishment of a permanent secretariat and a good many arbitrational matters arising out of the interpretation of the detailed tariff agreements which have been negotiated at previous meetings.

There are, however, some more bitter winds for this shorn lamb of good international relations to withstand. There are three items in this category: import restriction, which comes up for review automatically at each meeting and can be the occasion for some disconcerting manoeuvring; the disparity between European tariffs, which was dealt with at the last meeting by the time-honoured delaying tactic of setting up a committee – a device which might be used this time; third, the dispute between the United States and Czechoslovakia in which the United States threatens to withdraw all concessions to the Czechs as a Communist nation. Behind this last dispute lies a tangle of political questions on relations between the East and the West in which the United States Congress is greatly interested. G.A.T.T. is hardly mature enough to deal with issues of this kind which could rock a much more high-powered international conference than one dedicated to the reduction of the undergrowth in the world's tariff jungle.

End to Airline Losses?

Results of the two state-owned airline corporations for the year ended March 31st, 1951, were rather below expectations but they were encouraging nevertheless. B.O.A.C. cut its deficit on the year from £7·8 million to £4·6 million, and B.E.A. reduced its losses from £1·4 million to just under £1 million. Both corporations increased their revenue and their break-even load factor – that is the percentage of carrying capacity which they needed to fill in order to cover operating costs.

Most of the loss of B.O.A.C. was incurred on the South American route, that of B.E.A. by rising costs and less fortunate traffic results over the four winter months of the financial year.

The promise of even better things to come which the results for the corporations' trading year indicated is already showing signs of fulfilment. Only recently Sir Miles Thomas, the chairman of B.O.A.C., announced that the results for the first four months of the new financial year were 'the best and the most encouraging that the corporation has ever produced'. For the four months taken together the deficit was reduced to £65,000 compared with a loss of £1,748,000 for the same period last year. For the last month of the four, July, an actual overall surplus was recorded. In ordinary commercial parlance this means that the corporation has made a net profit for that month.

Lay-up Levy for Deep-sea Tramps

Following years of discussion that go back to before the war, a scheme has been inaugurated to compensate owners for loss of income on laid-up cargo tonnage. The plan is not an innovation for there has been for some time a similar scheme in operation for tankers.

The arrangement has not as yet received the formal official sponsorship of the Chamber of Shipping or the industry which that body represents but the sponsorship is of the highest quality. A company called Tonnage Stabilization Association Ltd has been registered with offices at the Chamber of Shipping. Membership is open to any shipowner whose fleet is of the kind to be affected by the scheme, irrespective of nationality.

The objects of the Association will be to compensate members upon the mutual principle against losses incurred in the business of ship-owning or in connexion with the operation of merchant ships; and the carrying into effect of a tonnage stabilization scheme on the mutuality principle. The necessary funds will be raised by a levy on the gross earnings of ships in employment and it is proposed that compensation shall be paid on tonnage which has been laid up for a minimum period of twenty days.

FINANCE AND COMMERCE

Worsening of the balance of payments position which has brought weakness to British Government stocks has also reinforced the trend towards foreign government bonds and overseas securities generally. The volume of business in home stocks remains small with the market uncertain.

Under Control

The directors of Phoenix Telephone and Electric Holdings Ltd, whose first accounts we reprint this week, provide an obvious case for exceptional treatment under the proposed dividend control. The company came before the public in December 1950, when a quotation was obtained for its ordinary shares. First operating profits reported have exceeded the average then given and the prospective 10 per cent dividend is recommended.

Mr G. F. Shipman, the chairman, in his statement points out that the effect of the White Paper on Control of Dividends as regards a new company – one which has not completed two accounting periods by July 26th, 1951 – is that ordinary dividends may not exceed 7 per cent annually, with a corresponding lower rate for a financial period less than a year. Dividends in excess of the permitted rate declared after July 26th must be set off against permissible distributions for future accounting periods.

The position of the company on a strict interpretation of the White Paper is a permissible distribution of 7 per cent for a full year and only 1¾ per cent for its first accounting period, so that if 10 per cent is paid for the first financial period there could be no dividend at all for the year to February 29th, 1952, and only 5¼ per cent for the following year, namely 7 per cent less 1¾ per cent.

Shareholders to Decide

The directors, believing that the company has a good case for exceptional treatment, recommend the 10 per cent payment for the first financial period. They point out that it was the basis on which a quotation on the London Stock Exchange was obtained for the shares and that since the period was slightly less than three months, the permissible dividend would only be 1¾ per cent although the dividend will relate for a full year's operations.

It has not been practicable, they add, to seek a ruling because they understand the Treasury is not prepared to give such rulings. They therefore recommend the 10 per cent and leave the final decision to the shareholders.

If the ordinary shareholders 'should consider that it would be more in their interests for a lower rate of dividend than 10 per cent to be declared, they could at the annual general meeting adopt a resolution providing for a lower rate of dividend accordingly'.

Beecham Accounts

The annual publication by Beecham Group Ltd ranks very high in company accounting. From illustrated cover – a print of the company's London headquarters – to the end page, it is full of facts. Pictures are mainly of the Group's products, for which purpose the report is divided into the groups within the company, Maclean, Eno, Food Products, etc.

One important thing that puts these accounts into the top flight is the fact that the report on trading begins with the sales figure. We take the following from the first page of the review of the year's activities by Sir J. Stanley Holmes, the chairman:

TRADING RESULTS

The total trading profits of the Beecham Group for the year ended March 31st, 1951, amounted to £2,735,077 compared with £2,427,430 for the previous year.

	£
The Group's income from sales of its products amounted to	23,066,769
Of this income, the following amounts were required for:	
Raw materials, supplies and services	14,513,771
Salaries, fees, wages, pensions and pension scheme costs, paid to or on behalf of directors and employees, including staff participation in profits..	2,605,907
Advertising	2,941,582
Depreciation of plant and other fixed assets	270,432
British income-tax and profits tax and overseas taxation ..	1,602,166
Redemption payments and fixed dividends to preference shareholders and dividends to other outside shareholders in subsidiaries..	361,668
Dividends on the deferred shares of the company	331,237
Leaving, for retention in the business as additional working capital, the sum of	440,006

The view of the sales position is taken further as the review progresses. A five-year table shows home sales split into food products, manufacturing companies and wholesale companies; toilets and cosmetics; pharmaceuticals; and veterinary, sundries, etc. A two-year table gives export and overseas sales under four headings and the proportion which each head bears to the total. The total is then analysed into the several world markets with a five-year comparison and the profits derived from abroad are similarly set out. Beechams brought in £1¼ million of profit from abroad in the year to March 31st, 1951, of which £286,000 came from the U.S.A. and Latin America, and £186,000 from Canada.

Insured Value

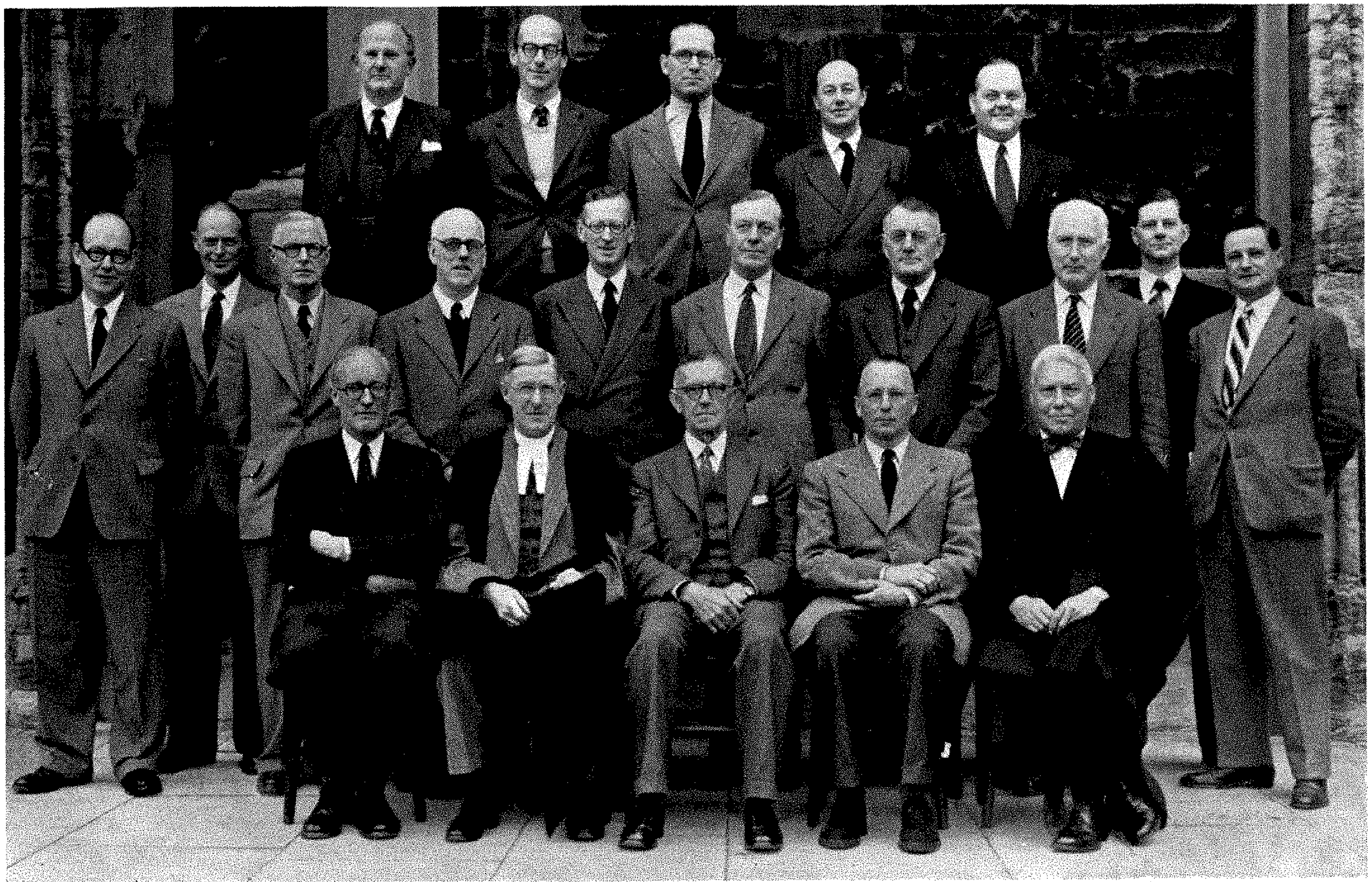
Fixed assets are given in the consolidated balance sheet of Murex Ltd at £2,894,246 gross and £1,512,933 net after aggregate depreciation. The chairman, Mr George P. Joseph, draws attention to the fact that the current replacement cost of these assets is greatly in excess of their original cost. As an indication of the board's assessment of their present worth, he points out that the insured value of these assets is £5½ million.

In the absence of an up-to-date valuation, the value for insurance purposes is probably the nearest shareholders can get to real as compared with book figures. Moreover, it is information so much in the balance sheet context that we favour its insertion as a note to the fixed assets total.

SUMMER COURSE

The Institute of Chartered Accountants in England and Wales

Christ Church, Oxford, September 9th to 14th, 1951



[Gillman & Soame Ltd, Oxford

Some Personalities

From Left to Right; Seated: Mr ALAN S. MacIVER, M.C., B.A., *Secretary of the Institute*; The Very Rev. J. LOWE, M.A., *Vice-Chancellor, Oxford University, and Dean of Christ Church*; Messrs CHARLES W. BOYCE, C.B.E., F.C.A., *President of the Institute*; DONALD V. HOUSE, F.C.A., *Chairman of the Summer Course Committee*; Lieut.-Colonel D. V. HILL, M.A., *Steward of Christ Church*. **Middle Row:** Messrs S. M. DUNCAN, F.C.A., *Speaker*; DEREK DU PRÉ, *Editor of 'The Accountant'*; A. S. H. DICKER, M.B.E., F.C.A., *leader of group B*; A. D. WALKER, F.C.A., *leader of group D*; W. H. LAWSON, C.B.E., B.A., F.C.A., *speaker*; E. G. TURNER, M.C., F.C.A., *member of the Summer Course Committee*; H. W. CHANCELLOR, F.C.A.(Aust.), *Vice-President, The Institute of Chartered Accountants in Australia, speaker*; W. L. BARROWS, F.C.A., *member of the Summer Course Committee*; M. A. SMITH, B.A., *a Secretarial Assistant of the Institute*; G. F. SAUNDERS, F.C.A., *leader of group A*. **Back Row:** Messrs P. F. CARPENTER, F.C.A., *leader of group H*; H. T. NICHOLSON, F.C.A., *leader of group F*; C. C. TAYLOR, F.C.A., *leader of group C*; W. G. DENSEM, A.C.A., *leader of group G*; S. KITCHEN, A.C.A., *leader of group E*.

PHOENIX TELEPHONE AND ELECTRIC HOLDINGS LIMITED

Profit and Loss Account, Period December 4th, 1950, to February 28th, 1951

	£	£		£	£
To Secretarial Services		300	By Interest (gross)		3,840
,, Directors' Emoluments:			,, Dividends Receivable (gross):		
Fees	128		The Phoenix Telephone & Electric Works Ltd:		
Salaries	1,750		Preference Shares 3 months to February 28th, 1951	161	
Commission	735				
	——	2,613	Ordinary Shares 12 months to February 28th, 1951	18,569	
,, Audit Fee		105		——	18,730
,, Taxation on Profits for the period: Income Tax		9,268			
,, Proposed Allocations:					
Provision for Dividend 3 months to February 28th, 1951 (less Income Tax):					
5½ per cent Cumulative First Preference Shares	1,528				
6 per cent Cumulative Redeemable Second Preference Shares	394				
	——	1,922			
Dividend on Ordinary Shares: 10 per cent (less Income Tax)		7,875			
,, Balance to Balance Sheet		487			
		£22,570			£22,570

Balance Sheet, February 28th, 1951

	£	£		£	£
Share Capital			**Investment** at cost		
Authorized and Issued and fully paid:			The Phoenix Telephone & Electric Works Ltd:		
211,695 5½ per cent Cumulative First Preference Shares of £1 each	211,695		Whole of the issued Share Capital	211,695	
50,000 6 per cent Cumulative Redeemable Second Preference Shares of £1 each	50,000		Current Account including Dividend receivable	201,927	
600,000 Ordinary Shares of 5s each	150,000			——	413,622
	——	411,695	**Preliminary Expenses**	12,546	
Revenue Reserve			*Less* Share Premium	5,000	
Profit and Loss Account		487		——	7,546
Current Liabilities and Provisions			**Current Assets**		
Sundry Creditors and Credit Balances	2,423		Sundry Debtors and Debit Balances	750	
Proposed Ordinary Dividend (net)	7,875		Income Tax Recoverable	1,357	
Provision for Preference Dividends three months to February 28th, 1951 (net)	1,922		Balance at Bankers	1,127	
	——	12,220		——	3,234
		£424,402	G. F. SHIPMAN, E. N. EPSTEIN } *Directors.*		£424,402

PHOENIX TELEPHONE AND ELECTRIC HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Balance Sheet, February 28th, 1951

	£	£		£	£
Share Capital			**Fixed Assets**		
Authorized and Issued and fully paid:			Freehold Land and Buildings at Cost	308,382	
211,695 5½ per cent Cumulative First Preference Shares of £1 each	211,695		*Less* Depreciation	15,202	
				——	293,180
50,000 6 per cent Cumulative Redeemable Second Preference Shares of £1 each	50,000		Plant and Machinery, Furniture, Fixtures, etc.: At Book Value, July 1st, 1948	18	
600,000 Ordinary Shares of 5s each	150,000		At Cost £465,461		
	——	411,695	*Less* Depreciation 245,548		
Capital Reserve	261,353			219,913	
Do. Excess Profits Tax Post-war Refund.. ..	17,598			——	219,931
	——	278,951			513,111
Revenue Reserves					
Depreciation Reserve	43,565		**Investments at Cost**	738	
Taxation Contingencies	8,500		(Market Value at February 28th, 1951, £966)		
Profit and Loss Account	19,151		Investments at Cost, Trade	500	
	——	71,216		——	1,238
Reserve for Income Tax 1951-52		30,150	**Current Assets**		
Overdraft at Bankers (secured by a Debenture)		158,152	Stock-in-trade, certified by the Companies' Officials	547,961	
Provision for Deferred Repairs		15,268	Sundry Debtors and Debit Balances, less provision for Bad Debts	169,733	
Current Liabilities and Provisions			Balance at Bankers and Cash in hand	4,173	
Sundry Creditors and Credit Balances	200,723			——	721,867
Taxation	44,297		*Notes.*		
Employees' Profit-sharing Scheme	15,861		1. The Excess Profits Tax Post-war Refund may be subject to alteration upon the final settlement of the claim in respect of Deferred Repairs.		
Proposed Ordinary Dividend (net)	7,875		2. There are Capital Commitments estimated at £16,000.		
Provision for Preference Dividend three months to February 28th, 1951 (net)	1,922		3. The Capital Reserve has been arrived at as follows:		
	——	270,678	General Reserve and Unallocated Profits in The Phoenix Telephone & Electric Works Ltd and its Subsidiaries at February 28th, 1950 ..	419,301	
Minority Interest in a Subsidiary		106	*Less* Difference between nominal value of shares issued as consideration for the acquisition of the issued share capital of The Phoenix Telephone & Electric Works Ltd and nominal value of that share capital	150,402	
				268,899	
			Less Preliminary Expenses of the Holding Company	7,546	
				£261,353	
		£1,236,216	G. F. SHIPMAN, E. N. EPSTEIN } *Directors.*		£1,236,216

THE PHOENIX TELEPHONE AND ELECTRIC WORKS LIMITED AND SUBSIDIARIES

Consolidated Account, Year ended February 28th, 1951

Profit and Loss Account

1950 £		£	£	1950 £		£
53,780	To Depreciation of Fixed Assets		62,576	186,477	By Profit from Trading and Rents Receivable.. ..	200,592
12,427	,, Interest on Overdraft and Loan.. ..		12,508	53	,, Income from Investments	61
—	,, Interest on Loan, Phoenix Telephone & Electric Holdings Ltd		3,840	861	,, Profit on Realization of Property	—
	,, Directors' Emoluments:			377	,, Interest on War Damage Claim	—
100	Fees	192			*Note.* For the period from December 4th, 1950, to February 28th, 1951, the emoluments of such of the Directors as are also Directors of Phoenix Telephone and Electric Holdings Ltd are charged in the accounts of that company and amount to £2,613.	
7,500	Management Salaries	5,750				
6,495	Commission	4,379	10,321			
5,395	,, Employees' Pension Fund (including £1,065 8s 4d in respect of Directors) ..	8,114				
15,877	,, Employees' Profit Sharing	15,940	24,054			
857	,, Audit Fee		935			
	,, Taxation on Profits for the year:					
11,055	Profits Tax	13,250				
29,430	Income Tax	34,431	47,681			
814	,, Expenses of Increasing Capital		—			
	,, Net Profit for year:					
—	Minority Interest in a Subsidiary ..	60				
44,038	Appropriation Account	38,678	38,738			
£187,768			£200,653	£187,768		£200,653

Appropriation Account

	£	£		£
To Goodwill and Preliminary Expenses of Subsidiaries written off		10,004	By Profit and Loss Account: Net Profit for year	38,678
,, Proposed Allocations:				
6 per cent Cumulative Preference Shares:				
Dividend paid 6 months to November 30th, 1950 (less Income Tax)..	177			
Dividend 3 months to February 28th, 1951 (less Income Tax)	84			
Ordinary Shares Dividends year to February 28th, 1951 (less Income Tax):				
Class A at 7s 1d per share	608			
Class B at 2s 10d per share	610			
Class C at 6s 6d per share	8,531	10,010		
,, Balance carried to Balance Sheet:				
The Phoenix Telephone & Electric Works Ltd ..	18,217			
Subsidiary Companies	447	18,664		
		£38,678		£38,678

Consolidated Church Accounts

'In our opinion the above statement has been properly prepared so as to give for such year under simple headings a fair view of the annual income and outgoings of the Church of England according to the accounts consolidated.' This certificate, over the signature of Messrs Pannell, Crewdson and Hardy, Chartered Accountants, is the finishing touch to what has been a monumental work of consolidation.

A description of the work involved is given in *The Work and Revenues of the Church of England*, a booklet already reviewed in *The Accountant* of August 18th. To obtain the figures, it was necessary to bring together the accounts of over 12,000 parishes, 43 dioceses, and 34 church societies and weave the totals into a table with the accounts of the Church Commissioners, the Central Board of Finance, and the Pensions Board.

The result is a summary of church annual receipts and payments in which the figures read horizontally under vertical headings on the income side of 'Endowments (interests, dividends, rents, etc.), subscriptions, donations, collections, other sources, including legacies treated as income'; and on the payments side under 'Clergy, including lay workers, maintenance of buildings, including church services, religious education, training for ministry and lay work, missions, administration, miscellaneous, and additions to endowments and provision for superannuation'.

In grappling with this task of compilation and simplification, the investigators often faced problems 'where even a trained accountant would not be sure which of two alternative answers, both financially correct, would give the reader the best picture of the whole'. Was a final payment relating to interest on war damage claims, for example, to be regarded as relating to previous years and excluded from the income and expenditure account for the year in question?

It is emphasized therefore that the final statement must be read in conjunction with the explanatory notes and comments because, isolated from their context, the figures alone might be misunderstood and misused.

Money Market

Applications for Treasury bills totalled £332,140,000 on September 14th and the market obtained 67 per cent of requirements. The average rate was 10s 3·07d per cent and this week's offer is reduced to £240 million. There is a call of £25 million against Treasury deposit receipts.

CURRENT LAW

Contract: Warranty

In *Shanklin Pier Ltd v. Detel Products Ltd* (*Law Times*, July 27th, 1951) the defendants represented to the pier owners that a certain paint of their manufacture was suitable for repainting the pier and, in reliance on this representation, the pier owners directed the contractors to use this paint. They did so, but the paint proved defective. The pier owners sued for damages for loss as the result.

McNair, J., held that the representation was a warranty, for which the consideration was that the owners should cause the contractors to contract with the manufacturers for the supply of the paint. The warranty was thus enforceable and the plaintiffs accordingly succeeded.

Contract for Underlease

In *Hollington Brothers Ltd v. Rhodes and Another* (*Law Times*, August 10th, 1951) the plaintiffs sued the defendants for a declaration that they were entitled to an underlease for seven years of certain premises occupied by the plaintiffs. An underlease for seven years and counterpart were signed by the respective parties but not exchanged. Nevertheless the plaintiffs entered into possession. The defendants assigned to a purchaser who gave the plaintiffs notice to quit, and an agreement was entered into whereby the plaintiffs were granted a lease of four years at a higher rent and a premium. The defendants argued that there was no contract between them and the plaintiffs and that, if there were, it could have been enforced against the purchaser. The plaintiffs had, therefore, suffered no damage for which the defendants had any responsibility.

Harman, J., held that there was no contract. He said, however, that if there had been, it could have been registered as a Class C (iv) charge. As it was not, it would thus have been void against a purchaser. On the other hand, if there had been a contract, the defendants would have committed a breach by putting it out of their power to grant the underlease and the plaintiffs would have been entitled to damages.

Trading with the Enemy

The Privy Council was recently called upon to decide between the rival claims of two citizens of Hong Kong, in *Hangkam Kwingtong Woo v. Liu Lan Fong, alias Liu Ah Lan* (*Law Times*, August 10th, 1951). The appellant had a house in Hong Kong subject to heavy mortgages. During the Japanese occupation he decided to leave Hong Kong and gave his power of attorney to C., authorizing him to sell his house if he should think fit. The Japanese made military yen the only permissible currency in the Colony. Later C. sold the house, which he had represented to be free of encumbrances, but the sale was not completed by registration at the Hong Kong Land Office and later again the mortgages were paid off in military yen. When the appellant returned to the Colony he found himself liable to pay the mortgagees a sum in Hong Kong dollars over and above the military yen already paid. The purchaser sued for specific performance of the agreement for sale of the house.

It was held that, the Colony being in enemy occupation, the courts of the occupied territory could not regard either as enemies of the King or of each other those who had left the Colony or those who had stayed behind; therefore, the power of attorney was not abrogated and the appellant was bound by the documents executed under it. The change of fortune resulting in the additional burden to the appellant was not so fundamental as to strike at the root of the agreement and there was thus no frustration.

Contract: Altered Circumstances

The Accountant for October 14th, 1950, gave the decision of the Court of Appeal in *British Movietonews Ltd v. London and District Cinemas Ltd*, in which the defendants tried to terminate an arrangement for the exhibition of films supplied by the plaintiffs, on the ground that the circumstances in which the contract was entered into had entirely altered. The agreement provided that it should remain in force so long as the Cinematograph Film (Control) Order, 1943, was in force. Slade, J., construed the contract in favour of the plaintiffs but the Court of Appeal reversed his decision. The House of Lords restored the judgment of Slade, J. ([1951] 2 All E.R. 617).

Dividend Free of Tax up to 6s in the £

The House of Lords in July last construed the articles of a company in relation to its dividend. The articles provided that certain shares were entitled to a dividend at such rate that

> 'after deduction of income-tax thereon at the current rate for the time being . . . the amount remaining shall be the clear sum of 6 per cent per annum on the capital paid up thereon less the amount of any income-tax for the time being payable in excess of 6s in the pound computed on the gross sum of 6 per cent per annum on such capital. . . .'

The Court held that for any year in which income-tax exceeded 6s in the £, the deduction in respect of the excess should be calculated on the amount of £6 per cent on the paid-up capital and not on that amount grossed up at 6s in the £. The result would be that for a year in which tax was 9s in the £ the net amount of dividend on £100 capital would be £6 less 18s (*Friends' Provident and Century Life Office and another v. Investments Trust Corporation Ltd and Others* (*Law Times*, August 17th, 1951)).

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Orthodox Profits

SIR, – I should like, if I may, to congratulate Mr Jeffery English on his article, 'Another view on orthodox profits', published in your issue of August 4th last.

I agree that the profit and loss account items should be converted at the average rate for the year, but I would suggest that the balance sheet items in the trial balance should be converted to the currency of the date of the balance sheet.

If this were done, the trial balance (Schedule No. 4 in Mr English's article) would be:

		Fickles
Capital		82,800
Fixed Assets	72,000	
Opening Stock	9,000	
Purchases	75,000	
Sales		103,500
Expenses	12,150	
Closing Stock	18,000	15,000
Depreciation	12,000	14,400
Cash	16,350	
Loss on Exchange	1,200	
	£215,700	£215,700

The balance sheet will then show cash at its face value and would, if there were debtors and creditors, reflect the amounts receivable or payable.

The accounts would show that, while a capital profit of 27,600 Fickles might have been expected as a result of inflation during the year, only 26,400 Fickles were realized, leaving 1,200 Fickles to be provided out of the profit on trading.

Yours faithfully,
JOHN WIMBLE, F.S.A.A., C.A.(S.A.)
Johannesburg.

'Education: Progress and Regress'

SIR, – I question whether the availability of secondary education to all aged 11 and over is such a 'signal advance' as appears to be accepted by the writer of the leading article in your issue of September 1st.

The only difference, using the empirical yard-stick, seems to lie in the change of label. That is to say, the old elementary school is now called 'secondary' and what was formerly secondary has graduated to a higher status in name only.

It is still possible that real progress will be made when the lack of school buildings and shortage of teachers has been overtaken, but it is a long way off on present indications. My own observations show that the attainments of the average secondary school leaver at 15 years of age are little higher than the 14-year-olds of 25 years ago who had received no more than an elementary education.

Yours faithfully,
Prittlewell, Essex. L. G. COVELL.

SIR, – In your leading article on education (September 1st) you state that

> 'Such a decision bears hardly in areas where the proportion of grammar school places is small, and where pupils really suited for a grammar school education are forced to attend secondary modern schools.'

I have been concerned with this problem for a long time, but my local education authority and the Ministry of Education deny that any child is refused admission to a grammar school solely on the ground of lack of accommodation.

The relative merits of the different types of secondary schools are not involved in stating that children who, at the age of eleven, might be assumed will enter the profession of their parents in due course, should take the type of education most suited for that eventuality.

As other readers may be faced with the same problem, it would be helpful if you could state the source of your evidence or authority for this statement.

Yours faithfully,
Totteridge, N20. T. A. WHITFIELD.

[Section 76 of the 1944 Act makes it clear that the wishes of the parent should be paramount in deciding upon the type of education which a child should have, while the relationship between the number of grammar school places and the number of children deemed suitable to occupy them must be, to a certain extent, fortuitous. It is illogical to think that they can be equal every year in every place. – Editor.]

Dividend Control

SIR, – After studying the White Paper and the recent Treasury statement on 'Control of dividends', I am still uncertain on one point with which I am faced.

On September 1st, 1950, company A. – without increasing its issued capital – purchased the whole of the share capital of company B. The financial year of company A. ends on August 31st and that of company B. has been altered to correspond.

The Treasury statement of September 11th shows that there is to be no limitation of the dividend which the subsidiary company B. may pay to the parent company A., but neither this statement nor the White Paper gives any indication of the dividend which the parent company may pay in these circumstances.

Since the legislation is designed to limit the dividends declared by industry as a whole, would it not be within the spirit of the proposed law for company A. to declare a dividend being its own 'average' standard plus the statutory amount in respect of company B.?

Yours faithfully,
JAGO.

THE SOCIETY'S SUMMER COURSE

INCORPORATED ACCOUNTANTS AT CAMBRIDGE

The papers which were read at the Incorporated Accountants' course at Gonville and Caius College, Cambridge, which lasted from Thursday, September 13th, until last Monday, balanced nicely the essentials of such a function. On this occasion the emphasis was on professional practice.

Taxation and Company Practice

On practical matters, Mr C. V. Best, F.S.A.A., and Mr J. A. Jackson, F.C.A., F.S.A.A., shared the responsibility for taxation. Mr Best dealt with basis periods under Cases I and II of Schedule D in a variety of circumstances, which made us wish again that the Millard Tucker Committee's 'predilection for some kind of change' had been translated into practicable proposals for amendment of the law. Mr Jackson traced a path through the labyrinthine provisions relating to settlements, from whose welter of negatives it is so difficult to extract a positive. The latest profits tax complications were also reviewed.

Mr Philip Randall's paper on 'Practical aspects of company law affecting the practising accountant' contained much clear advice on matters which are not only topical but difficult, such as bonus issues in relation to writing up fixed asset values, and the position of redeemable preference shares. On voting rights in relation to matters in which directors are personally interested, there can be few who do not have some unquiet moments of reflection – a jerk to complacency in practice is something such a course would surely administer. It is possible only to note very briefly some of Mr Randall's points, namely:

(1) Although there is no positive authority from the Courts, it appears to be accepted that a bonus issue may be made from a credit balance created by writing up fixed asset values (but not from introducing a new goodwill item). Some danger that, in liquidation, the shares might be claimed not to be fully paid, as issued without full consideration, should be countered in advance by using this expedient only after advice of counsel and an independent valuation of the fixed assets.

(2) If an *undertaking* is being acquired as from a prior date, the income character of profits accruing from that date until completion of the contract may be preserved by authority in the purchasing company's articles and suitable wording in the vending agreement. This cannot, of course, apply to acquisition of *shares*, so as to constitute relationship of holding and subsidiary.

(3) The necessity for warranties in vending agreements for shares was sharply contrasted with their comparative rarity in practice. Suitable subjects are regularity of tax affairs, absence of undisclosed liabilities, estate duty liability under Section 46, Finance Act, 1940, and for sur-tax under Section 21 of the 1922 Act.

(4) Redeemed preference shares remain part of the authorized capital and in the absence of provisions in the memorandum as to their subsequent status, should be shown as part of that total, but unclassified.

(5) A requirement in articles that a director may retain personal interest in contracts of the company, provided that he abstains from voting on any relevant resolution, may be largely nullified in practice unless they also provide that he should be omitted from the quorum at the same time. In the absence of an independent quorum, there is no alternative to approval of members in annual meeting, when the director may vote by virtue of his holding, so long as there is no fraud or oppression of the minority.

Accounting Principles

One cannot help thinking that Mr F. Sewell Bray, F.C.A., F.S.A.A., a member of the Council of the Society and Nuffield Senior Research Fellow, Department of Applied Economics in the University of Cambridge, as accountant-economist-philosopher, would have gladdened the heart of the late Lord Stamp. Whether he has time or not, Mr Bray is apt to 'stand and stare', to question doctrines and practices most of us too glibly accept, and to work towards securing for accounting, fundamental principles which would raise its status into something more of a science. In his paper at Cambridge, Mr Bray traces five such principles, arising from the economic concepts of periodic income and wealth, namely, the dual aspect of accounting embodied in double-entry; the notion of accounting for some entity, whether it be person or group; the conception of periodic income flowing from recognition of that entity as a continuing one; the principle of consistency; and, finally, an accounting design which is expressed by a set of related accounts which, in everyday practice, are known as income statement, appropriation account, and balance sheet, with the addition of a 'resting account' or reconciliation of the application of retained income, i.e. the emergence of capital as a result of saving. Mr Bray was unable to trace the full implications of his analysis within his limited compass, but accountants must accept his proposition that at least a large proportion of the inventories of a continuing enterprise have the character of fixed assets, from which the step is not long to a constant valuation for the purposes of the periodic income measurement. Analysis of assets into real assets (including inventories), intangibles, and those arising from money claims is similarly facilitated.

American Developments

The course was fortunate in a visit from Mr J. Harold Stewart, C.P.A., of Boston, Immediate Past-President of the American Institute of Accountants. In his review of developments in the United States, Mr Stewart graciously referred to the independence of the pioneers of public accounting who had originated in this country. 'Is not independence the corner stone upon which the profession rests?' he asks, and, strikingly, 'independence . . . was the climate into which the profession was born'. The growth of the profession in twenty years from less than 5,000 certified public accountants to 40,000, of which nearly half are of no more than ten years' standing, is equally striking. It is evident that greater thought has been given in the

United States to precise wording of reports and certificates for all purposes, so as to protect all those who may place reliance on the professional signature. A clear-cut indication of the character of the examination is required, and either an expression of opinion on the character of the statements or an assertion, with reasons, that such an expression cannot be given. It is interesting, too, to learn Mr Stewart's opinion that government policies are producing an unwarranted interference with accounting practices. Our diversion on initial allowances is matched by 'certificates of necessity' which allow of amortisation of capital expenditure for tax purposes over five years, with its attendant controversy as to validity for costing and accounting.

Productivity, Profits and Prices

This was the title of the paper given by Mr C. E. Sutton, A.S.A.A., F.C.W.A., and practising accountants should be grateful for the clear way in which he dealt with a subject which, for them, is necessarily difficult. Productivity, or productive effectiveness, as the British Institute of Management prefers, is defined most satisfactorily, in Mr Sutton's view, as 'the relationship of output to input', but it is suggested that there is no means of measurement which is suitable for universal application. More rewarding than emphasis on productivity of labour is a continuing inquiry into all cost factors for the avoidance of waste in all forms. Those factors, the use of labour and machine capacity, effective buying, selling and administration, require separate consideration and do not lend themselves to resolution as overall indices or ratios. Comparisons of detail are necessary and this passes logically to the technique of standard costs and budgetary control. Standards may be 'current' or 'ideal' or both; they should be based on what should be, rather than a variation of what happened previously; and present standards should be compared not only with present performance but with past standards. Mr Sutton next analyses the effect of variations in productivity on profits, by increased recovery of fixed overheads, reduced variable costs and additional profit at normal margins on additional output. A plea is added for measurement of costs, including depreciation, on the same monetary basis as income, and for taxation and reserves for replacements to be deducted before 'real' profits emerge. A frank statement as to the negligible effect of demand in price-fixing over most of the industrial field is none the less disturbing for being familiar, and Mr Sutton deals separately from the standpoint of price policy with the three factors into which the effect of productivity on profits was divided.

An address entitled 'Some effects of inflation' was delivered by Dr R. F. Henderson, Lecturer in Economics in the University of Cambridge and Mr Noel Hall, Principal of the Administrative Staff College, read a paper entitled 'Towards a profession of management'.

Guest Night Dinner

Mr C. Percy Barrowcliff, F.S.A.A., President of the Society, presided at guest night dinner held last Monday, and the guests included

Mr S. C. Roberts, M.A. (*Vice-Chancellor, Cambridge University, and Master of Pembroke*); Sir Lionel E. H. Whitby, C.V.O., M.C., M.A., M.D. (*Vice-Chancellor Elect, Cambridge University, and Master of Downing*); Mr J. Harold Stewart, C.P.A., Boston (*Immediate Past President of the American Institute of Accountants*); Dr W. G. Humphrey (*Headmaster, Leys School*); The Rev E. W. Heaton (*Dean of Gonville and Caius College*); Dr F. C. Powell (*Gonville and Caius College*); Dr A. R. Prest (*Department of Applied Economics, Cambridge University*); Messrs T. C. Thomas, M.A., LL.B. (*Trinity Hall, Secretary of the Faculty of Law*); C. F. Carter, M.A. (*Emmanuel College*); J. E. G. Utting, M.A. (*Department of Applied Economics, Cambridge University*).

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Arnold, Joseph Edward Oliver; 1933, A.C.A.; 295 Regent Street, London, W1.

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Dewar, James, M.B.E., G.M.; 1938, A.C.A.; (Clarkson Webb & Dewar), Granville House, Arundel Street, London, WC2.

Fare, John Parkinson; 1921, A.C.A.; (J. Parkinson Fare & Co), Midland Bank House, 26 Cross Street, Manchester, 2.

Mather, William Denton, M.A.; 1932, A.C.A.; (Hardy, Lawton & Co), 21–25 York Street, Sheffield, 1.

Meades, Alan Macdonald; 1936, A.C.A.; (W. Lacon Threlford & Co), Liverpool House, 15–17 Eldon Street, London, EC2.

Melbourne, Samuel John; 1938, A.C.A.; (*Mitchell, Melbourne & Co), 112–114 City Road, London, EC1.

Morton, Samuel Stuart; 1946, A.C.A.; (Edward Boyles & Co), Empire House, St Martin's-le-Grand, London, EC1, and at East Molesey, Northwood, Romsey and Paris.

Norman, Harold William; 1940, A.C.A.; (Thorne, Lancaster & Co), 1 Draper's Gardens, Throgmorton Avenue, London, EC2.

Nyfield, Abraham Arthur; 1938, A.C.A.; (Passer, Miller & Co), Eldon Street House, Eldon Street, London, EC2.

Smith, David Clifford; 1925, A.C.A.; (Rawlinson, Hargreaves, Smith & Wood), 7 Grimshaw Street, Burnley, and at Manchester.

Southon, Arthur Charles; 1939, A.C.A.; (Arthur Southon & Co), 13 Finchley Lane, Hendon, Middlesex, and at Watford.

Swinbank, Roland William; 1937, A.C.A.; 70 High Street, Stockton-on-Tees.

Townend, Norman; 1940, A.C.A.; (*G. W. Townend & Co), Carlisle Chambers, Carlisle Street, Goole.

Tripp, Dermot Alker; 1937, A.C.A.; (Thorne, Lancaster & Co), 1 Drapers' Gardens, Throgmorton Avenue, London, EC2.

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(In Practice)

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McAndrew, Walter Leonard (*Robson, Laidler & Co), 20 St Mary's Place, Newcastle upon Tyne, 1.
Maurice, Cyril Julian, 130 Crawford Street, Baker Street, London, W1.

(Not in Practice)

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Alweiss, Manfred, with Robert H. Marsh & Co, 73 Ethelburga House, 91–93 Bishopsgate, London, EC2.
Amis, Alan Stephen, with *Cross & Fairhead, 36 Regent Street, Great Yarmouth.
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Arnell, Reginald Richard William, with Nevill, Hovey, Gardner & Co, 43 Church Road, Hove 3, Sussex.
Arnold, John Adams, with Robbins, Calverley & Co, 17 Shaftesbury Avenue, London, W1.
Ash, Roger Dixon, with Agar, Bates, Neal & Co, 106 Edmund Street, Birmingham, 3.

Backshell, Thomas Christopher, with Edward Moore & Sons, Thames House, Queen Street Place, London, EC4.
Barbour, Brian William, with *Thoseby, Son & Co, District Bank Chambers, Market Street, Bradford.
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Beaver, David William, with Beaver, Bowen & Co, 1 Hoghton Street, Southport.
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Bell, George Edward, with B. Davis & Co, 59 Sloane Street, London, SW1.
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Bingham, Thomas Henry, with W. H. Walker & Co, 42 Castle Street, Liverpool, 2.
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Bolton, John Barker, with *Jones, Crewdson & Youatt, 7 Norfolk Street, Manchester, 2.
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Charlton, William Leonard, with Rawlings & Wilkinson, 55 John Street, Sunderland.
Christie, John Raymond, with *Jackson, Taylor, Abernethy & Co, 24 St Mary Axe, London, EC3.
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Clee, Peter William, with J. & H. S. Metcalf, 10 St Andrews Crescent, Cardiff.
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Collins, Peter Leslie Robert, with F. W. Stephens & Co, Liverpool House, 15 & 17 Eldon Street, London, EC2.
Collis, John Neville, with *Barton, Mayhew & Co, Alderman's House, Bishopsgate, London, EC2.
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Delahunty, Paul Vincent, with F. Wilkinson, 327 Stretford Road, Manchester, 15.
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Dixon, Arthur, M.M., 23 Cypress Avenue, Crews Hill, Enfield, Middlesex.
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Evans, Barton Edward, 'Rutland', Alfreda Road, Whitchurch, Glamorgan.
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Fletcher, James Bruce, with John Gordon, Harrison, Taylor & Co, 7 Bond Place, Leeds, 1.
Flint, Bernard Joseph, M.B.E., B.COM., with Crombie, Lacon & Stevens, 34 Waterloo Road, Wolverhampton.
Forsyth, Kenneth Norman, 27 Bideford Road, Stockport.
Foskett, Robert William, with *Evans, Davies & Co, 36 Dover Street, London, W1.
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Frank, Thomas Robert Herman, with A. C. Palmer & Co, Norfolk House, 7 Laurence Pountney Hill, London, EC4.
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Gay, Michael Algar Parrish, with Wilkinson, Chater & Co, 28 Queen Street, London, EC4.
Gibb, Ian Grant, with *Major & Co, 89 Cornwall Street, Birmingham, 3.

Gilbert, John Edwin, with *Hopps & Bankart, 25 Friar Lane, Leicester.
Gledhill, Kenneth, with Armitage & Norton, Station Street Buildings, Huddersfield.
Godkin, John Richard Hayward, c/o Herbert Godkin & Co, 53 Baxter Gate, Loughborough.
Goldsmith, John Arthur, M.A., with W. B. Keen & Co, Finsbury Circus House, Blomfield Street, London, EC2.
Goldwyn, Leslie, with Goldwyn Bros. & Co, 115–119 Moorgate, London, EC.2
Goodall, Norman Jack, with Adams, Beeny & Co, 2 Central Buildings, London Road, Bognor Regis.
Green, David Frank, with Ware, Ward & Co, 21 Cathedral Yard, Exeter.
Green, Peter James, with Lord, Foster & Co, Rex House, 38 King William Street, London, EC4.
Grenfell, Nicholas, with MacIntyre, Hudson & Co, Craigs Court House, 25 Whitehall, London, SW1.
Griffiths, Wynne, with Sheard, Vickers & Winder, 34 Castle Street, Liverpool, 2.
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Guppy, Frederick John, with M. W. Burrough & Co, 10 South Street, Bridport.
Guthrie, Allan Cochrane, with *Jones, Crewdson & Youatt, 7 Norfolk Street, Manchester, 2.

Hadfield, Clive, with Lysons, Haworth & Sankey, 71 King Street, Manchester, 2.
Haigh, Harry, 19 Dane Street, Burnley.
Hailstone, Frank Nelder, with *A. C. Brading & Co, Lloyds Bank Chambers, Basingstoke.
Haines, Clive Emeris, Carlton House, Moorland Road, Bournemouth.
Hallen, Arthur Herbert, with Broads, Paterson & Co, 1 Copthall Close, Moorgate, London, EC2.
Hallwood, Arthur, with *Chalmers, Wade & Co, 5 Fenwick Street, Liverpool, 2.
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Hay, John Norman, with *Tansley Witt & Co, 22–24 Ely Place, London, EC1.
Hayling, Arthur John, with H. S. Dunk, 21 High Street, Dartford.
Haywood, James Harry, with P. S. Taylor (P. Spence Taylor & Co), Palladium House, Sansome Road, Shirley, Birmingham.
Hemming, Keith Blakemore, with Forrester, Boyd & Co, 26 South St Mary's Gate, Grimsby.
Henson, David, with J. C. Graham & Spoor, Art Gallery Chambers, 5 Higham Place, Newcastle upon Tyne, 2.
Hewett, Thomas Hugh, 9 North Street, Didsbury, Manchester, 20.
Hewitt, Philip Arthur, with Edwin Guthrie & Co, 71 King Street, Manchester, 2.
Heywood, Samuel Frank Bruce, with Peter Gregson & Co, 9 Chapel Walks, Manchester, 2.
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Hill, Geoffrey Alan, with Harker, Holloway & Co, Regent House, 89 Kingsway, London, WC2.
Hill, Neil Fleming, with W. A. Brown & Co, 307 Winchester House, London, EC2.
Hilliar, Edwin John, with Cozens, Bate & Co, Carlton Chambers, Baldwin Street, Bristol, 1.
Hilton, John Alfred, with E. F. Kellett (E. F. Kellett & Co), 6 Byron Road, Ealing Common, London, W5.
Hodge, Gerard Mark, with Turquand, Youngs & Co, 19 Coleman Street, London, EC2.
Hodge, Reginald Alfred, with *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
Holbrook, Robert Charles, with Calder-Marshall, Ibotson & Bound, 11–13 Dowgate Hill, London, EC4.
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Holland, John Herbert, with *Robson, Laidler & Co, 20 St Mary's Place, Newcastle upon Tyne, 1.
Holland, Nigel Francis, with Smallfield, Fitzhugh, Tillett & Co, 24 Portland Place, London, W1.
Holloway, Michael Kenneth, 5 The Drive, Banstead, Surrey.
Hopkins, Geoffrey Douty Borrough, with *Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.
Hoskin, Peter William, 69 Deacon Crescent, Bitterne, Southampton.
Howarth, Harold, with Williamson, Butterfield & Roberts, City Chambers, 2 Darley Street, Bradford.
Hubbard, Colin Campbell, with *Chantrey, Button & Co, Africa House, Kingsway, London, WC2.
Hudson, Derek Ernest, with Derbyshire & Co, Hanover House, 73–78 High Holborn, London, WC1.
Hughes, Cyril Fred, with Walter J. Edwards & Co, 15 Bridge Street, Walsall.
Hughes, David Lingford, with *Peat, Marwick, Mitchell & Co, 2 Park Place, Leeds, 1.
Hughes, Hugh Vansittart, with Edward Moore & Sons, Thames House, Queen Street Place, London, EC4.
Humby, Reginald Herbert George, with *A. J. Whitington, Wootton & Co, 17 St Peter Street, Winchester.
Hunt, Roy John, with Hemsley, Miller & Co, 5 Cheapside, London, EC2.
Hutchinson, John Frederick, with *J. W. Armstrong & Sons, Northern Assurance Buildings, 2 Collingwood Street, Newcastle upon Tyne, 1.
Hyatt, Frank, with W. G. Hawson, Wing & Co, Harthead Chambers, Sheffield, 1.

Ironside, Donald James, with Grace, Darbyshire & Todd, 19 Whiteladies' Road, Bristol, 8.

James, John Colston, with Cozens, Bate & Co, Carlton Chambers, Baldwin Street, Bristol, 1.
Jasper, James Desmond, B.COM., with Jones & Jasper, 86 High Street, Cradley Heath, Staffs.
Jeffreson, Michael, with Edmonds & Co, Pearl Buildings, Commercial Road, Portsmouth.
Jehring, Peter John Yarington, with Morison, Rutherford & Co, 20 Eastcheap, London, EC3.
Jennings, John David, with *Whinney, Smith & Whinney, 4B Frederick's Place, Old Jewry, London, EC2.
Johnson, Geoffrey Leonard, with B. Gould (B. Gould & Co), Trinity Square, Axminster, Devon.
Johnson, Kenneth Claude, with Baker, Sutton & Co, Eldon Street House, Eldon Street, London, EC2.
Jones, John Pierce, with G. E. Holt & Son, 'C' Building, Queen Insurance Building, 10 Dale Street, Liverpool, 2.
Jones, Wilfred Henry, B.COM., with Sidney H. Buckland & Son, Moorgate House, 6 Christina Street, Swansea.
Jones, William Caerwyn, with *Peat, Marwick, Mitchell & Co, Dowlais Chambers, West Bute Street, Cardiff.
Jose, Bernard Gordon, with Wilkinson, Chater, Kinney & Co, 17 Ship Street, Brighton, 1.

Kelly, Thomas Donald Gumbrielle, with Wenn, Townsend & Co, 55 Cornmarket Street, Oxford.
Kendall, David Edward John, with Black, Geoghegan & Till, 67 Watling Street, London, EC4.
Kilsby, Douglas William, with *Kingdon, Marbeck, Antill & Co, 14 St Mary Abbot's Terrace, Kensington, London, W14.
Kinnair, Peter Lock, with A. L. Friends & Co, 3 Winchester Street, South Shields, Co. Durham.

Knight, John Oliver, with Stanley Blythen & Co, 12 Low Pavement, Nottingham.
Lamb, James, with Newton & Co, 63 Temple Row, Birmingham, 2.
Lamble, John Edwin, with Humphreys, Bushell & Co, 49 Sheepcote Road, Harrow, Middlesex.
Lambourne, Ralph Rosoman, with Harmood Banner, Lewis & Mounsey, 3 Lombard Street, London, EC3.
Larbey, John Guy Fraser, with Reynolds & Lane, 39 Albert Road, Ashford, Kent.
Larkins, Brian Hunter, with Howard Smith, Thompson & Co, Bank Chambers, 11 Waterloo Street, Birmingham, 2.
Laws, Michael Lutener, 99 Millway, Mill Hill, London, N.W.7.
Lawton, Peter Lines, with *Warriner & Co, 47 Temple Row, Birmingham, 2.
Laycock, Frank Raymond, with H. V. Wood & Co, Bank Chambers, Market Street, Huddersfield.
Leach, Alan Edward, with Josolyne, Miles & Co, 28 King Street, Cheapside, London, EC2.
Lee, Alan George, B.COM., with P. T. Duxbury, 25 Northumberland Square, North Shields.
Lees, Geoffrey, with S. Carr, 14 King's Head Buildings, Cloth Hall Street, Huddersfield.
Legge, Gerald Humphry, with Binder, Hamlyn & Co, River Plate House, 12 & 13 South Place, London, EC2.
Leonard, Brian, with Josolyne, Miles & Co, 28 King Street, Cheapside, London, EC2.
Lewis, Dennis Stanley, with *Temple, Gothard & Co, 7 & 8 Norfolk Street, Strand, London, WC2.
Lister, Frank, with Taylor, Patchett & Co, 150 High Street, Scunthorpe.
Lithgow, Denis, with W. H. Grigg & Perkins, Central Chambers, 8–16 Park Street, Bristol, 1.
Littlemore, Peter East, with A. L. Price (A. L. Price & Co), 7 Pall Mall, Manchester, 2.
Littlewood, Herbert Charles, with *C. F. Middleton & Co, 73 Basinghall Street, London, EC2.
Littlewood, Kenneth Herbert, with W. G. Hawson, Wing & Co, Hartshead Chambers, Sheffield, 1.
Lockhart, Geoffrey John Charles, with Ware, Ward & Co, 1 Grosvenor Mansions, Sidmouth, Devon.
Lockley, Donald Osborne, with H. Dawson, 14 Liverpool Road, Chester.
Longworth, John Francis, with *A. A. Thomas, Rogers & Co, Midland Bank Chambers, Llandudno.
Lowe, John Andrew Pennington, c/o Hollows & Hesketh, 37 King Street, Wigan.
Lucas, Howard Spencer, with A. C. Lucas (A. C. Lucas & Son), Brettenham House, Lancaster Place, Strand, London, WC2.
Lunt, William Thomas, with de Paula, Turner, Lake & Co, 17 Coleman Street, London, EC2.
Lynn, Peter, B.COM., with A. C. Palmer & Co, Norfolk House, 7 Laurence Pountney Hill, London, EC4.
Lyon, Francis George, c/o Thomson McLintock & Co, 33 King William Street, London, EC4.

McBrien, William Robert, with *Allan, Baldry, Holman & Best, Bilbao House, 36 New Broad Street, London, EC2.
McCombie, Patricia Mary, M.A., with S. McCombie (S. McCombie & Co), Barclays Bank Chambers, Hitchin.
McConnell, Frank Howard, with W. L. Gallant (W. L. Gallant & Co), 28 East Parade, Leeds, 1.
Macdonald, James Douglas, with Lovewell Blake & Co, 8 The Close, Norwich.
Mackey, Milburn Ralph Simon James, with *Allan, Charlesworth & Co, 17 St Helen's Place, Bishopsgate, London, EC3.
Macro, Neville, with Proctor & Proctor, Central Chambers, Market Street, Nelson, Lancashire.
Mallett, Vivienne Eveline, with Burke, Covington & Nash, 20–21 Took's Court, Cursitor Street, London, EC4.
Mann, Stanley Victor, with Leech, Evans & Co, 45 Warwick Road, Coventry.
Marjoribanks, Ian Douglas, M.C., with Viney, Price & Goodyear, Empire House, St Martin's-le-Grand, London, EC1.
Martin, Frederick Whitton, with C. D. Bromhead & Co, 'Coryton Villa', Trematon Terrace, Mutley, Plymouth.
Mason, John Brian, with *Peat, Marwick, Mitchell & Co, Lombard House, Great Charles Street, Birmingham, 3.
Matthews, James Arnold McCalmont, with Brough, Postlethwaite & Co, Midland Bank Chambers, High Street, Doncaster.
Maxwell, John Edward, with Sydenham, Snowden, Nicholson & Co, 27 Martin Lane, Cannon Street, London, EC4.
Meader, Norman Frank, with *Turner, Hamilton & Wilton, 35 St Leonard's Road, Bexhill-on-Sea.
Mellor, Arthur Raymond, with J. S. Johnson, 7 Tithebarn Street, Liverpool, 2.
Mellor, James Peter, with Shuttleworth & Haworth, Lloyds Bank Buildings, 53 King Street, Manchester, 2.
Mellor, John Douglas Hyde, with James & Cowper, 14A Northbrook Street, Newbury, Berkshire.
Meynell, Richard Walter, with *Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2.
Miller, John Anderton, with Simon Jude & West, 11–13 Victoria Street, Liverpool, 2.
Milsom, Sydney Follwell, with Ham, Jackson & Brown, Albion Chambers, Small Street, Bristol, 1.
Mitchley, John Anthony, with *Stephenson, Smart & Co, 6 Market Hill, Huntingdon.
Montague, Derek Hadley, with *Spain Brothers & Co, 1 Old Burlington Street, London, W1.
Mooney, Joseph Geoffrey, c/o E. Heaton, 23 Chapel Walks, Preston.
Moore, Kenneth Alfred Baynes, with Fuller, Wise, Fisher & Co, 55–61 Moorgate, London, EC2.
Moorhead, Patrick Denton, with Hawkin & Co, 30 Ely Place, Holborn Circus, London, EC1.
Morgan, John Richard, with *Sprague, Nicholson, Morgan & Co, 68–72 Horseferry Road, London, SW1.
Morley, Kenneth John, with Deakin Hale, Reid & Co, 115–119 Moorgate, London, EC2.
Morris, Eric James, with F. W. Bright (Francis W. Bright & Co), 35A Nodehill, Newport, Isle of Wight.
Mortlock, Percy John, with *Jas. W. Elliott & Co, 47 Orsett Road, Grays, Essex.
Moss, Sidney Norman, with Clark, Battams & Co, 32 Victoria Street, London, SW1.
Moss, Stanley, with Wykes & Co, 24 Friar Lane, Leicester.
Moxham, Douglas Gordon, with F. Sedcole (Frederick Sedcole & Co), 4 Great Winchester Street, London, EC2
Murphy, Joseph Daniel, with *Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2.

Neate, William Arthur, with Patrick Joy & Co, 11 Havelock Road, Hastings.
Nettleton, John Oldfield, with Broads, Paterson & Co, 1 Copthall Close, Moorgate, London, EC2.
Nicholas, Peter Norman, Flat 4, 57 Westbourne Road, Sheffield, 10.
Nichols, Maurice Blackburn, with Hudson Smith, Briggs & Co, Exchange Chambers, Bristol, 1.
Niven, William Gillies, with Ware, Ward & Co, 7 Unity Street, College Green, Bristol, 1.
Nixon, Johnston, with Armstrong, Routledge & Co, City Chambers, 57 English Street, Carlisle.
Norfolk, Peter John, with Evans, Smith Boothroyd & Co, 99 Fenchurch Street, London, EC3.
Norfolk, Stanley, with Evans Smith, Boothroyd & Co, 99 Fenchurch Street, London, EC3.
Norris, David Colin, B.SC., with Haythornthwaite & Norris, 20 Richmond Terrace, Blackburn.
Norris, Gordon Hubert, with Fisher & Firkins, 12 Cherry Street, Birmingham, 2.
Norris, John Randall, with Ralph D. Higgs, Foreman & Co, Holly House, Paddockhall Road, Haywards Heath, Sussex.

North, Philip Anthony, with Brown, Peet & Tilly, Bank Buildings, 1 High Street, Croydon.
Nunn, Ernest Charles, with *J. & A. W. Sully & Co, Midland Bank Chambers, 10 High Street, Barnstaple.
Nurden, Donald Broderick, with James Rodd & Co, 781 Salisbury House, London Wall, London, EC2.

Oates, Stanley John, 10 Hendon Valley Road, Sunderland.
Overton, Robert Henry Hunter, with *Stanley Holmes & Co, 68 Pall Mall, London, SW1.

Palmer, Geoffrey Stewart, with Charlton, Long, Houghton & Wintle, Winchester House, Victoria Square, Birmingham, 2.
Palmer, William Gordon, with Turquand, Youngs & Co, 19 Coleman Street, EC2.
Pearse, William Richard George, with Goodland, Bull & Co, 7 Hammet Street, Taunton.
Pearson, Roy, with W. J. Campbell, 49A Whitefriargate, Hull.
Peart, Simon Willis, with Sharp, Parsons & Co, 120 Colmore Row, Birmingham, 3.
Peat, Gerrard Charles, with *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
Pegley, Leonard Charles, with Hesketh, Hardy, Hirshfield & Co, Norwich House, 13 Southampton Place, London, WC1.
Penketh, Ronald William, with Edward Denton & Son, 30 Exchange Street East, Liverpool, 2.
Philp, Melvin Harry, with Howard Smith, Thompson & Co, Bank Chambers, 11 Waterloo Street, Birmingham, 2.
Phipkin, Harold Joseph, with Lucas, Allen & Co, 1 Lansdowne Place, Warwick Road, Coventry.
Pickworth, Stanley Frederick, M.A., with J. H. Champness, Corderoy, Beesly & Co, 10 St Swithin's Lane, London, EC4.
Polhill, Anthony Nathaniel, with J. Dix Lewis, Caesar, Duncan & Co, 112–114 Cannon Street, London, EC4.
Price, Wilfred James, with Howard Smith, Thompson & Co, Bank Chambers, 11 Waterloo Street, Birmingham, 2.
Priestley, Allan Trevvett, with S. V. Bye, 137 Albert Road, Middlesbrough.
Priestley, John Joseph, with D. W. H. Phipp & Son, 4 East Circus Street, Park Row, Nottingham.
Pritchard, Eric Glynn, with Callingham, Brown & Co, Balfour House, 119–125 Finsbury Pavement, London, EC2.
Prue, Norman John, with H. Overton, Salt & Co, 85 Edmund Street, Birmingham, 3.

Ragheb, Hafez Mostafa, 36 Blythwood Road, Crouch Hill, London, N4.
Raitz, Gerald Norman, with Leonard G. Lane, Scotten & Co, 34–40 Ludgate Hill, London, EC4.
Ramsay, Francis Fawcus, with Price Waterhouse & Co, 31 Mosley Street, Newcastle upon Tyne, 1.
Rao, William Pascoe, with Wilkinson & Mellor, Leadenhall Buildings, 1 Leadenhall Street, London, EC3.
Reader, John Grove, with Lodge & Winter, 19 Lemon Street, Truro, Cornwall.
Reid, John, with Thomas Bowden, Sons & Nephew, 42 Mosley Street, Newcastle upon Tyne, 1.
Reynolds, Peter Arthur, with Stevenson, Chapman & Co, 31–33 High Holborn, London, WC1.
Rice, Richard William Francis, with Harker, Holloway & Co, Regent House, 89 Kingsway, London, WC2.
Richards, David Gordon, with Harmood Banner, Lewis & Mounsey, 3 Lombard Street, London, EC3.
Richardson, Charles Bulmer, with *Peat, Marwick, Mitchell & Co, 13 Mosley Street, Newcastle upon Tyne, 1.
Rickard, Ronald Edward, with Lord, Foster & Co, Rex House, 38 King William Street, London, EC4.
Riley, Edward Ronald, with Stanley Blythen & Co, 12 Low Pavement, Nottingham.
Ringwood, George, with Basil L. Denton & Co, 3–7 Scarborough Street, West Hartlepool.
Roberts, Raymond Arthur, with Edmonds & Co, 66 Victoria Street, London, SW1.
Roe, Dennis Henry Ogle, with Derbyshire & Co, Bentinck Buildings, Wheeler Gate, Nottingham.
Rogers, Stanley, with Muras & Co, 49 Queen Street, Wolverhampton.
Rolph, John Mair, with Turquand, Youngs & Co, 19 Coleman Street, London, EC2.
Rolt, Henry Ernest Adrian, with G. E. Rolt (G. E. Rolt & Co), 4 Westbury Avenue, London, N22.
Rood, Gerald Arthur, 114 Upper Shaftesbury Avenue, Highfield, Southampton.
Rothburn, Aubrey, with E. H. Baring, 7 Brazennose Street, Manchester, 2.
Rowe, Charles Henry, with Maw, Ellis, Warne & Co, Maypole House, Finsbury Square, London, EC2.
Rumsey, Allen Edward Wynn, M.C., 15 Herschell Road, Leigh-on-Sea, Essex.
Rumsey, Ronald Lionel, with *Larking, Larking & Whiting, 18 Hatter Street, Bury St Edmunds.
Rutter, Joseph Morley, 3 Ivy Cross, Shaftesbury, Dorset.
Ryley, Brian Edward, with Wykes & Co, 24 Friar Lane, Leicester.

Sadd, Michael John Gower, with *Thomson McLintock & Co, 5 St Philip's Place, Birmingham, 3.
Samworth, Robert James, with William S. Ogle & Co, 90 Gresham House, 24 Old Broad Street, London, EC2.
Sanderson, John Frederick Richard, with Ham, Jackson & Brown, 26 Gay Street, Bath.
Sansom, Douglas, c/o Henry Trew & Co, 22 Park Lane, Croydon.
Sargent, John Eric, with Herbert Hill & Co, 552–555 Salisbury House, London Wall, London, EC2.
Sarson, Michael Barry, with Thornton & Thornton, 8 King Edward Street, Oxford.
Schofield, Jack, c/o Pattimore & Dyson, Barclays Bank Chambers, Market Place, Huddersfield.
Scrimshaw, Thomas Arthur, with Carline, Watson, Bird & Co, 57–59 Saltergate, Chesterfield.
Senn, Stanley Alfred, with H. C. Richardson & Son, 3 Broad Street Buildings, Liverpool Street, London, EC2.
Settle, Henry Frederick, with Sheard, Vickers & Winder, 34 Castle Street, Liverpool, 2.
Shear, Henry Baron, with Herbert Pepper & Rudland, 33 St James's Street, London, SW1.
Shelton, Kenneth Edward, with Tebb, Beevers & Co, Sun Buildings, 15 Park Row, Leeds, 1.
Shield, James William, with *Percy F. Ward & Co, 27 Mosley Street, Newcastle upon Tyne, 1.
Shirley-Beavan, Michael, with Binder, Hamlyn & Co, River Plate House, 12–13 South Place, London, EC2.
Shulman, Herbert Norman, with Harrison, Son, Hill & Co, Charter House, 52 Gloucester Place, London, W1.
Simmons, Gordon Geoffrey, with *Alfred Simmons & Co, The Market Hall, Redhill, Surrey.
Simpson, Edward Derek, with James Todd & Co, 7 Winckley Square, Preston.
Slack, Kenneth, with Mellor, Snape & Co, 36 Chestergate, Macclesfield.
Slade, Gilbert John, with Fairbairn, Wingfield & Wykes, 67 Watling Street, London, EC4.
Slator, Maurice Henry, with Moore, Stephens & Co, 30 Cornhill, London, EC3.
Smallbone, Michael John, with J. R. Train (James Train & Co), Barclays Bank Chambers, 1 Ripple Road, Barking, Essex.
Smith, Anthony Langford, with Swanwick, Terras & Co, 64 Cross Street, Manchester, 2.
Smith, Basil Benjamin, with *Cassleton Elliott & Co, 4 & 6 Throgmorton Avenue, London, EC2.
Smith, Peter Holbourn, with *Stephenson, Smart & Co, 69 Wrawby Street, Brigg, Lincolnshire.
Speight, Charles Edmund, with Boyer, Thwaites & Co, 22 Bridge Street, Deansgate, Manchester, 3.
Spruce, Eric Wilfred, with French, Wallis & Forsyth, Groat House, Collingwood Street, Newcastle upon Tyne, 1.

Squires, Eric Geoffrey, with Crew, Turnbull & Co, 1 George Street West, Luton.
Staddon, John Frederic, with Prideaux, Frere, Brown & Co, 12 Old Square, Lincoln's Inn, London, WC2.
Stephani, Christakis Costas, B.COM., with *Pannell, Crewdson & Hardy, 9 Basinghall Street, London, EC2.
Stevens, Richard Bridges, with Baker, Sutton & Co, Eldon Street House, Eldon Street, London, EC2.
Steward, Francis, with Ensor, Son & Goult, 30 Museum Street, Ipswich.
Stones, William Marcus, with Graves, Goddard & Horton-Stephens, 7 Pavilion Parade, Brighton, 1.
Stuart, Humphrey John James, B.A., Horn's Cottage, Crondall, Hampshire.
Stuttard, Derek, with Wade & Co, 37 Cross Street, Manchester, 2.
Suffell, William, with N. R. Rigby, 55 Market Street, Manchester, 1.
Sullivan, John James, with R. C. Johnston, 59 Hamilton Square, Birkenhead.
Sunderland, John Victor, with H. Titterton (Harold Titterton & Co), 79A Wellington Road South, Stockport.
Sutherland, Bruce Wilson, with *Hubbart, Durose & Pain, 9 Low Pavement, Nottingham.
Swindlehurst, John Onslow William, with Thornton & Thornton, Nuffield House, 41–46 Piccadilly, London, W1.

Taffs, Alfred John, with *Barton, Mayhew & Co, Alderman's House, Bishopsgate, London, EC2.
Taylor, Alan Guy, with Waterworth, Rudd & Hare, Central Buildings, Richmond Terrace, Blackburn.
Taylor, Denis Brook, with Bridgford, Bardsley & Co, Martins Bank Buildings, 10 Norfolk Street, Manchester, 1.
Taylor, George Lewis, with *Armitage & Norton, Station Street Buildings, Huddersfield.
Taylor, Maurice Derrick, with Warmsley, Henshall & Co, 29 Eastgate Row North, Chester.
Taylor, Walter William, with P. H. Stone & Co, 47 Temple Row, Birmingham, 2.
Telfer, Selvyn Walker, B.COM., with Winter, Robinson, Sisson & Benson, 16 Market Street, Newcastle upon Tyne, 1.
Thomas, Alfred Brian, with Bolton, Bullivant & Co, 6 Friar Lane, Leicester.
Thomson, William Noble, with *Cooper Brothers & Co, Century House, St Peter's Square, Manchester, 2.
Tomlinson, Norman Edward, with Blackburns, Robson, Coates & Co, 59 New Cavendish Street, London, W1.
Tonkinson, David Harry, with Nevill, Hovey, Gardner & Co, 43 Church Road, Hove, 3.
Touche, Anthony George, with George A. Touche & Co, Suffolk House, Laurence Pountney Hill, London, EC4.
Townend, Charles Russell Balme, with *Cooper Brothers & Co, 14 George Street, Mansion House, London, EC4.
Townley, Eric Samuel, with H. W. Fisher & Co, Dudley House, 36–38 Southampton Street, Strand, London, WC2.
Townsend, Douglas Vincent, with James, Edwards & Co, Salisbury House, London Wall, London, EC2.
Tuck, Eric Sydney, 33 Woodlands Grove, Isleworth, Middlesex.
Turner, Geoffrey Leonard, with Morison, Rutherford & Co, 20 Eastcheap, London, EC3.

Unsworth, Kenneth, with Bryce Hanmer & Co, 1–3 Stanley Street, Liverpool, 1.

Veale, John Henry, 90 Foxhall Road, Ipswich.
Viersen, John Arthur, with Dangerfield, Brewis & Co, 56 Cannon Street, London, EC4.

Wales, Kenneth Collinson, B.COM., with Smith, Willcox & Co, 38 Queen Street, Scarborough.
Walkden, Clifford, with F. Hunter, Gregory & Lord, Irwell Terrace, Bacup.
Walker, Donald, with *Price Waterhouse & Co, 7 South Parade, Leeds, 1.
Walker, John David Pearson, with E. M. Owen & Co, 11–13 Victoria Street, Liverpool, 2.
Walker, Roland Geoffrey Watson, with *Hill, Vellacott & Co, Law Courts Chambers, 33 & 34 Chancery Lane, London, WC2.
Walker, Vernon Arthur, with Williamson, Butterfield & Roberts, City Chambers, 2 Darley Street, Bradford.
Walters, Frank, with Stowell & Bayley, 57 King Street, Manchester, 2.
Warburg, George Albert Siegmund, 40 Rutland Gate, London, SW7.
Ward, Bryan Derek, with Frank J. Smith & Co, 52–54 High Holborn, London, WC1.
Ward, William Ronald, with Bruce-Cuvilje & Co, 10 Mount Stuart Square, Cardiff.
Watts, Donald, with W. J. Gilbert & Co, 61 Fore Street, Moorgate, London, EC2.
Weavers, Frank Paton, with Carter & Co, Lancaster House, Newhall Street, Birmingham, 3.
Webb, Lawrence Albert, with Clark, Battams & Co, 32 Victoria Street, London, SW1.
Webber, John James, M.C., with Amherst & Shapland, 10 Holloway Street, Minehead.
Wells, Arthur George, with Weeks, Hillyard & Co, Weavers' Hall, 22 Basinghall Street, London, EC2.
Wells, Malcolm Henry Weston, with *Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
Wesson, Charles Robert Corbey, with *Larking, Larking & Whiting, 18 Hatter Street, Bury St Edmunds.
Westwood, Peter Conway, with *Frederick Griffith & Son, Westmorland Chambers, 31 Stricklandgate, Kendal.
Wevell, William Beckerleg, with *J. & A. W. Sully & Co, 16 King Square, Bridgwater.
Whitby, Dennis Victor, with W. H. Gillings & Co, County Chambers, Weston Road, Southend-on-Sea.
Whittaker, Terence Roy Reginald, with F. E. Hawkes & Co, 27 Dunstable Road, Luton.
Wicks, Merlin Whitfield, with H. D. Leete & Co, Northern Assurance Buildings, 9 Princess Street, Manchester, 2.
Wight, Geoffrey Glendinning, with *Alfred Wright & Co, 17 Curzon Street, London, W1.
Wild, Kenneth Frank, with *D. Philips Ell & Gross, 54 Welbeck Street, London, W1.
Wildy, Michael Charles William, with *Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.
Willey, Gerald Jeffrey, with Crew, Turnbull & Co, 1 George Street West, Luton.
Williams, Allan, with Parsons & Jolliffe, Belvoir House, 45 Chepstow Road, Newport, Monmouthshire.
Williams, Frederick John Sidney, with Clark, Battams & Co, 32 Victoria Street, London, SW1.
Willis, Guy Russell d'Anyers, M.A., with *Barton, Mayhew & Co, Alderman's House, Bishopsgate, London, EC2.
Wilson, Arthur Brian, with Viney, Price & Goodyear, Empire House, St Martin's-le-Grand, London, EC1.
Wilson, John Humphrey Lydiard, with *Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2.
Wilson, Michael Denton, with Spencer, Wilson & Co, Equitable Chambers, Central Street, Halifax.
Wilson, Richard James Mark, D.F.C., with Harmood Banner, Lewis & Mounsey, 3 Lombard Street, London, EC3.
Wiltshire, Geoffrey Orville, with William S. Ogle & Co, Gresham House, Old Broad Street, London, EC2.
Winstanley, Harold Keith, with France & Pardey, 23 King Street, Wigan.
Wood, Peter Bruce, 27 Helix Road, London, SW2.
Woods, Walter Jefferson, with Smallfield, Fitzhugh, Tillett & Co, 24 Portland Place, London, W1.
Woodthorpe, John Desmond, B.A., with *Hogg, Bullimore & Co, River Plate House, Finsbury Circus, London, EC2.
Woodyer, Alan Raymond, with Blease & Sons, 223 India Buildings, Water Street, Liverpool, 2.
Wright, Michael Oliver, with *Pannell, Crewdson & Hardy, 9 Basinghall Street, London, EC2.

Wright, Norman Gainsford, with Winter, Robinson, Sisson & Benson, 27 Grey Street, Newcastle upon Tyne, 1.
Wright, Stanley, with *Henry Taylor & Co, Brighton Chambers, Victoria Square, Cleveleys.
Yates, Geoffrey John, with Tribe, Clarke & Co, Albion Chambers, Small Street, Bristol, 1.
Yeandle, Henry Square, with Slater, Dominy & Swann, Sussex House, Hobson Street, Cambridge.

(Not in England or Wales)

Walker, William Derek, with *Deloitte, Plender, Griffiths, Annan & Co, Charter House, P.O. Box 138, Ndola, Northern Rhodesia.

NOTES AND NOTICES

Personal

MESSRS PERCY F. WARD & CO announce that as from September 1st, 1951, Mr THOMAS S. LODGE retired from the firm, and that the practice will be carried on by Mr JOHN ARTHUR CRISP, F.C.A., and by Mr IVOR CHARLES STOREY, A.C.A., who has been admitted as a partner.

MESSRS ANGUS, WHITING & CO, Chartered Accountants, of 8 Crosby Square, London, EC3, announce that they have admitted to partnership, as from September 1st, 1951, Mr DONALD ARTHUR BLOFIELD, F.C.A., who has been for many years in practice in the City of London.

Professional Notes

Mr J. K. B. Howell, A.I.M.T.A., D.P.A., senior assistant county treasurer to the Lancashire County Council, has been appointed deputy county treasurer. Mr Howell, who is a native of Glamorgan, was formerly county treasurer of Merioneth and was first appointed to the staff of the Lancashire County Council in 1946 as chief audit officer. The post carries a salary of £1,700 rising by £75 per annum to a maximum of £2,000.

Mr W. G. Orriss, A.S.A.A., who has been chief accountant of the Road Transport and General Insurance Co Ltd for the past thirty years, has been appointed secretary of the company as from October 1st next.

Worshipful Company of Farriers

CHARTERED ACCOUNTANT INSTALLED AS MASTER

At a recent quarterly court of the Worshipful Company of Farriers, Major G. A. Warley, F.C.A., was installed as Master of the Company for 1951-52, with Mr Oswald Lewis, M.A., Professor J. B. Buxton, M.A., F.R.C.V.S., and Mr Deputy S. R. Walker, C.C., as Wardens. His Grace the Duke of Devonshire, and Mr Montague Berryman, K.C., were elected to the court.

Merger of Management Institutes

The Institute of Industrial Administration, which has worked for many years to foster the scientific study of management, has been merged with the British Institute of Management and all members of the I.I.A. become Founder Members, Associates or Students of the B.I.M. B.I.M. membership is not intended to constitute a professional qualification and the I.I.A. has therefore been incorporated as a general management professional institute within the framework of the B.I.M., its membership being open only to members of the B.I.M. The I.I.A. in effect thus becomes the professional wing of the B.I.M.

The Institute of Industrial Administration was founded in 1920 with the general aim of developing the science and technique of industrial administration. The British Institute of Management was established in 1947 on the advice of a committee of industrialists headed by Sir Clive Baillieu, then President of the Federation of British Industries. Both institutes are non-political and concerned solely with management practice and education. The terms for merger between the Councils of the two bodies required ratification by the written consent of at least 75 per cent of the total membership of the I.I.A., and this percentage was achieved in the astonishingly short time of a little over a week after the issue of the voting papers. The many centres and groups of the I.I.A. throughout the country will remain intact.

Double Taxation Relief: Norway

Instruments of ratification of the double taxation relief convention between the United Kingdom and Norway were exchanged at Oslo on August 31st, 1951. The terms of the convention have already been published as a draft statutory instrument.

Register of Industrial Premises

The Board of Trade announced on July 29th last that the Government had decided to create a small organization under Sir Philip Warter within the Board of Trade, which would be responsible for the establishment of a Control of Factory and Storage Premises in the event of an emergency. This organization is now the Factory and Storage Premises (Defence Planning) Division.

One of the first tasks of the Division is to bring up to date its register of industrial premises, and soon industrialists throughout the country will be receiving, from Board of Trade Regional Controllers, a letter asking them to supply certain basic information about their premises. However, by limiting the approach to firms occupying a floor space exceeding 5,000 sq. ft., and omitting those industries which are already heavily committed to the rearmament programme, only about one-third of the industrialists throughout the country will be asked to complete a short questionnaire.

The Board of Trade wishes to assure industry that the information obtained through this appeal will be regarded as strictly confidential and only used for the purposes of the register as an essential part of the country's defence plans.

Inter-American Conference on Accounting

The Second Inter-American Conference on Accounting will be held at Mexico City from November 12th to 16th next, when it is expected that accountants from about twenty nations in the Western Hemisphere will attend.

The theme will be 'The accountant as a factor in world economic development'. Specific topics will include accounting terminology, education, and professional ethics; technical problems in accounting and auditing; impact of fluctuations in the purchasing power of money; public finance; accounting for special industries; and cost accounting. A programme of entertainment is also being arranged. The *Journal of Accountancy*, New York, says that the American Institute of Accountants expects to send a large delegation.

Co-operative Societies' Finance

Financial details of co-operative societies for the years from 1940–1950 are presented in a statistical summary[1] recently issued by the Registry of Friendly Societies. The details have been gathered from the annual returns of distributive and productive societies (other than agricultural societies) registered under the Industrial and Provident Societies Acts, 1893 to 1928, and are classified in two sections: (1) retail societies, and (2) wholesale and productive societies.

At the end of 1950 there were 1,110 retail societies with a membership of 10,527,587 – over a quarter of a million more than in the previous year and nearly two million more than in 1940. Sales during 1950 amounted to £599,865,000 compared with £296,963,000 in 1940, and dividends during the year totalled £38,202,000, against £24,411,000 in 1940. The total assets of the retail societies rose by £350,000 during 1950 to £398,925,000 – a figure £158,638,000 greater than that of 1940. The assets of the 185 wholesale and productive societies fell from £222,605,000 in 1949 to £210,903,000 at the end of last year; the 1940 figure totalled £128,594,000.

[1] 'Co-operative Societies: Statistical Summary, 1940–1950' H.M.S.O. 6s net.

Glasgow Transport Inquiry

A proposal to appoint an independent panel to investigate the operation and financial position of Glasgow's transport system was approved at a recent meeting of the City Corporation reports *The Scotsman*.

The Socialist members of the Corporation strongly recommended that a committee of inquiry should be set up under the Secretary of State for Scotland, but the original proposal of Glasgow's Transport Committee for an independent panel, consisting of a K.C., a chartered accountant and a traffic expert, was carried by 54 votes to 46.

The Nottingham Chartered Accountant Students' Society

LECTURE MEETINGS, 1951–52

The first lecture in the 1951–52 programme of the Nottingham Chartered Accountant Students' Society is to be given next Wednesday when Mr F. G. Naylor, solicitor, will address members on 'Practical steps in the formation of a limited company'.

Meetings during the seven months' session which concludes on April 16th, will be held on Wednesdays at the Mikado Restaurant, Long Row, Nottingham commencing at 5.30 p.m., though on certain occasions they will start at 4 p.m., when there will be two lectures, one before and one after tea. The chairman of each meeting is kindly providing tea.

The Society's annual dinner is to be on Friday, November 9th, at the Victoria Station Hotel, Nottingham.

Courses of Lectures on Taxation

It is proposed to hold, at Kingsway Hall, Kingsway, London, WC2, two courses, each of seven lectures, on taxation law and practice as detailed below. All lectures will commence at 6.15 p.m. and will last for 1¼ hours, including time for questions. The lectures will take place on Wednesdays and Thursdays, commencing September 26th and 27th.

Wednesdays. – Commencing September 26th, 1951; for advanced students and practitioners.

Lecturers: Mr Percy F. Hughes, A.S.A.A., F.C.I.S., Assistant Editor of *Taxation*, and Mr T. L. Graham, A.S.A.A., of *Taxation*.

Subjects: (1) 'Profits tax', by Mr Hughes; (2) 'Property assessments and claims', by Mr Graham; (3) 'The Finance Act, 1951', by Mr Hughes; (4) 'Taxation of trading profits', by Mr Hughes; (5) 'Capital allowances', by Mr Graham; (6) 'Conduct of appeals', by Mr Hughes; (7) 'Double taxation', by Mr Hughes.

To practitioners the lectures should present an opportunity of revising and bringing up to date their knowledge of the subject.

Thursdays. – Commencing September 27th, 1951: Introductory and for Intermediate students.

Lecturers: Mr T. L. Graham, A.S.A.A., and Mr J. M. Cooper, A.A.C.C.A., A.C.I.S., of *Taxation*.

Subjects: (1) (*a*) 'Income-tax reliefs and allowances', (*b*) 'Schedule A', by Mr Graham; (2) 'Sched-

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ule E', by Mr Cooper; (3) 'Schedule D, Cases I and II', by Mr Graham; (4) 'Trading losses and partnership assessments', by Mr Graham; (5) 'Schedule D, Cases IV and V', by Mr Cooper; (6) 'Profits tax, I', by Mr Graham; (7) 'Profits tax, II', by Mr Graham.

These lectures should be found of value to students preparing for the various professional examinations, supplementing their studies and presenting the practical aspect of the subject.

Fee for each course £1 1s; admission cards for the lectures can be obtained from Mr Ernest T. Green, F.C.C.S., Kingsway Hall, Kingsway, WC2. Telephone Holborn 8860. Light refreshments at reasonable prices can be obtained on the premises between 5 p.m. and 6 p.m. before each lecture.

Science in the Study of Administration

A lecture entitled 'Science in the study of administration' is to be given at the London School of Economics and Political Science, Houghton Street, Aldwych, WC2, on Monday, November 5th. The lecturer will be Professor W. J. M. Mackenzie, M.A., LL.B., Professor of Government and Administration in the University of Manchester, and the chair will be taken by Professor K. B. S. Smellie, Professor of Political Science in the University of London.

The lecture commences at 5 p.m. and is addressed to students of the university and to others interested in the subject. There will be no admission charge and tickets are not required.

Recent Publications

THE ELEMENTS OF PUNCHED CARD ACCOUNTING, by Harry P. Cemach, A.C.A., A.I.L. x+137 pp. 8½×5½. 18s net. Sir Isaac Pitman & Sons Ltd, London.

THE LEASEHOLD PROPERTY (TEMPORARY PROVISIONS) ACT, 1951, by T. J. Sophian, Barrister-at-Law, and G. E. Llewellyn Thomas, Barrister-at-Law. xii+84 pp. 9½×5. 12s 6d net. Sir Isaac Pitman & Sons Ltd, London.

DEATH DUTIES, 1st Supplement to the Eleventh Edition, by Robert Dymond, Solicitor, and Reginald K. Johns, LL.B. 56 pp. 9½×6. 5s net. The Solicitors' Law Stationery Society Ltd, London.

THE FINANCE ACT, 1951, by Butterworth's Legal Editorial Staff. v+77 pp. 9½×6½. 12s 6d net, by post 5d extra. Butterworth & Co (Publishers) Ltd, London.

METHODS OF WAGE PAYMENT IN BRITISH INDUSTRY, by Norman C. Hunt, B.COM., PH.D. vii+160 pp. 18s net. Sir Isaac Pitman & Sons Ltd, London.

INTRODUCTION TO ECONOMICS, Second Edition, by Alec Cairncross, Professor of Applied Economics at Glasgow University. viii+592 pp. 9×5½. 18s 6d net. Butterworth & Co (Publishers) Ltd, London.

MOTORISTS AND THE LAW, by K. McFarlane, LL.D., J.P. vii+119 pp. 7×4. 5s net. Stevens & Sons Ltd, London.

Our Contemporaries

THE FEDERAL ACCOUNTANT. (Melbourne.) (July.)
THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (August.)
THE ACCOUNTANTS JOURNAL. (September.)
LOCAL GOVERNMENT FINANCE. (September.)
THE COST ACCOUNTANT. (September.) 'Research, Development and Design Costs', by H. Tennant, A.C.W.A.

Other Publications Received

THE LAW SOCIETY'S GAZETTE. (September.)
THE BANKER. (September.)
THE CHAMBER OF COMMERCE JOURNAL. (September.)
DER WIRTSCHAFTSPRUEFER. (Berlin.) (September.)
JOURNAL OF THE ROYAL SOCIETY OF ARTS. (September.)
ACCOUNTANCY. (September.)
THE BRITISH MANUFACTURER. (September.)
BULLETIN OF THE OXFORD UNIVERSITY INSTITUTE OF STATISTICS. (August.)
ECONOMICA. (August.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 23rd, 1876

To the Editor of 'The Accountant'

Public Accountant

SIR, – I can sincerely endorse your remarks upon the use of the term 'public accountant' by members of the profession. Why should an accountant be more 'public' than a solicitor? Surely, it must be absurd that accountants should think they require to adjective themselves thus. Did anyone yet hear of a 'public solicitor', a 'public barrister', a 'public doctor', or a 'public soldier'? By all means let the brass-plate gentlemen dub themselves 'public' this, that and the other, and let the *public* take their high-flown and self-imposed titles *cum grano salis*. I would advise the public to do so. If a man be an accountant, that is, from my point of view, quite sufficient – let him be one; but I think there is little to be got out of his assumption of such long-winded words as 'public accountant and auditor', which go merely to fill up the vacant space on a brass plate, and appear more to advertise outside that which is sometimes not to be found in. I have been an accountant as clerk and as official for fifteen years, and should take it as an insult to be called a 'public' accountant. Is it to be supposed that because one man is earning his living with direct communication with the community that he should arrogate to himself a title to which another employed as an official might perhaps not strictly speaking have a claim? This is a sample of those detestable petty jealousies which are keeping our profession back. And the lawyers know it. If I change my title at all, I shall call myself a 'public, private, official, general, universal, financial, and auditorial accountant'. It seems to me, however, a pity to alter a familiar designation unless some real good can be effected by the change, therefore I will, until further notice, sign myself,

Yours plainly but emphatically,
AN ACCOUNTANT.

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OFFICIAL NOTICES

Institute of Chartered Accountants in England and Wales

Examinations

The next EXAMINATIONS will be held as follows:

Preliminary	November 13th, 14th, 15th and 16th, 1951.
Intermediate	November 20th, 21st and 22nd, 1951.
Final	November 27th, 28th, 29th and 30th, 1951.

The Preliminary examination will be held in London and Manchester, Entry fee £3 3*s* *od*.

The Intermediate and Final examinations will be held in London, Birmingham, Leeds, Liverpool and Manchester. The entry fee for the Intermediate examination is £4 4*s* *od* and for the Final examination £5 5*s* *od*.

The prescribed examination entry form, together with the appropriate fee, must be received at the Institute NOT LATER THAN 35 CLEAR DAYS before the commencement of any examination. Late entries will not be accepted.

Candidates are advised in their own interests to submit their entry forms AS SOON AS POSSIBLE. Entry forms may be obtained from the Secretary of the Institute, Moorgate Place, London, EC2.

Merseyside and North Wales Electricity Board

Applications are invited for the position of DEPUTY CHIEF ACCOUNTANT at Area Board Headquarters in Liverpool, at a salary within the range £1,450–£1,750.

Candidates should be qualified accountants, members of recognized accountancy bodies, and have had wide experience of modern accounting practices. A knowledge of budgetary control and experience in electricity supply or some other public utility are also desirable.

The appointment will be superannuable and subject to medical examination.

Applications, on forms obtainable from the undersigned at Electricity House, Ref. 7.H, Love Lane, Pall Mall, Liverpool, 3, should be returned not late than Friday, September 28th, 1951.

JAMES RANKIN,
Secretary.

East Midlands Gas Board

Lincolnshire Division

GROUP ACCOUNTANT – GRIMSBY/CLEETHORPES GROUP

Applications are invited from suitably qualified Accountants for the above appointment. The duties will involve responsibility for the supervision of the accounting work in the Group and the preparation of final accounts. The salary range will be £800–£950 per annum, the commencing salary to be determined in accordance with the experience and qualifications of the successful candidate.

The post is superannuable and the successful candidate may be required to undertake a medical examination.

Applications, stating age, qualifications, experience, present appointment and salary, together with the names of two referees, should be sent to the undersigned, to be received not later than September 27th, 1951.

A. GWYNNE DAVIES,
Secretary.

Beverley House,
University Road,
Leicester.

County Council of the West Riding of Yorkshire

County Supplies Department

APPOINTMENT OF ACCOUNTANCY ASSISTANT

Applications are invited for the above permanent appointment which is subject to the provisions of the Local Government Superannuation Act, 1937 (as amended by the West Riding County Council (General Powers) Act, 1948), and to the Council's Conditions of Service.

The commencing salary will be £645 per annum rising by two annual increments of £20 and one of £25 to £710 per annum.

Candidates must have had good general experience of accountancy work, including costing, and must be familiar with the principles of internal financial control.

Preference will be given to persons holding a recognized accountancy qualification.

The person appointed will be subject to the immediate control of the Accountant, and will be required to devote his full time to the duties of the office.

Application forms, obtainable from the Chief Officer of Supplies, County Supplies Department, Cliff Lane, Wakefield, should be returned not later than October 6th, 1951.

University of the Witwatersrand

Johannesburg, South Africa

Applications are invited for appointment to a full-time post of SENIOR LECTURER IN MERCANTILE LAW on the permanent staff of the Department of Law.

The salary is on the scale £800×£40–£1,000 per annum, together with a temporary cost-of-living allowance which at present is £150 per annum for a married man or a person with dependants, and £109 4*s* *od* per annum for others.

If possible, duties are to be assumed on January 2nd, 1952.

Further particulars and information as to the method of application may be obtained from the Secretary, Association of Universities of the British Commonwealth, 5 Gordon Square, London, WC1.

The closing date for the receipt of applications is *October 15th*, 1951.

His Majesty's Colonial Service

Hong Kong

A vacancy exists for a TAX ASSESSOR (Grade I), Inland Revenue Department, Hong Kong. Appointment will be either on two years' probation for permanent and pensionable employment or on agreement for three years, in the salary scale \$1,130 rising to \$2,248.33 per month (£847 10*s* *od*, rising to £1,686 5*s* *od* a year approximately). A temporary and variable non-pensionable cost-of-living allowance is also payable (at present this allowance amounts to \$480 a month (£360 a year), at the minimum of the scale, for a married officer with children). The point of entry into the salary scale will be determined by war service, qualifications and experience.

Government quarters are provided at a rent not exceeding one-eighth of basic salary. Free passages up to five in number are provided for the officer, his wife and children under the age of 18. Leave is granted at the rate of one day for each week of residential service in a tour of four years.

Candidates must possess recognized accountancy qualifications plus accountancy experience gained after obtaining the qualification, or income-tax assessing experience. They should write for further particulars and a form of application to the Director of Recruitment (Colonial Service), Colonial Office, Sanctuary Buildings, Great Smith Street, SW1, quoting reference number 27042/4/51.

(*Continued on page* x.)

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ESTABLISHED 1874

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NATIONAL HEALTH SERVICE FINANCE: SELECT COMMITTEE'S OBSERVATIONS

THE Select Committee on Estimates has now published its eleventh report which deals with the estimates and accounts of the national health service.[1] The report contains a general review of the financial structure of the service, and an examination of the reasons why the methods employed to secure control of expenditure and check extravagancies have proved inadequate.

One of the chief reasons given for the inadequacy is interference by the Ministry of Health which brought about a deterioration in the position of the regional hospital boards in the matter of financial control. Until March 31st, 1951, these boards had the power to allow hospital management committees to transfer their expenditure from one sub-head to another, but with effect from this date the power was withdrawn and reserved to the Ministry of Health. Strong protests by the boards, however, secured a compromise for the financial year 1951–52, under which the Ministry and the boards are both to have power to authorize hospital management committees to make such transfers. Another reason given is the difficulties experienced by boards in undertaking their duty of scrutinizing the accounts of hospital management committees and checking wasteful expenditure. The accounts are not audited by the boards but by the Ministry of Health, who send copies of the annual reports of the auditors to the boards. But this has sometimes taken place several months after the audit and one board claimed that it had to fight for the right to see these reports.

Difficulties also exist in connexion with estimates. In the White Paper of 1946,[2] which outlined the structure of the service, it was stated that boards and hospital management committees were to enjoy

> 'as much financial freedom – by a system of block annual budgets or otherwise – for local initiative and variety of enterprise as general principles of Exchequer responsibility make possible.'

The Committee reports that the present position of boards and hospital management committees is very different from this. The reasons of the Ministry for introducing stricter methods of control, and for interfering with the powers of regional hospital boards were, when analysed, twofold. In the first place, very large

[1] Eleventh Report from the Select Committee on Estimates, Session 1950–51. H.M.S.O. 12s net.

[2] National Health Service Bill. Summary of the proposed New Service. Cmd. 6761.

supplementary estimates were presented for the hospital services in both 1948–49 and 1949–50, and it was considered necessary to introduce stricter control in order to prevent a recurrence of this in 1950–51. In the second place, the Ministry considered it to be their duty to ensure that different standards were not being applied to hospitals in different regions. The boards are still expected to scrutinize the estimates of hospital management committees before passing them on to the Ministry, but the time allowed for this, which should be among the most important tasks of the boards, is only about six weeks, which is totally inadequate. In spite of the system of approval of estimates by boards and the Ministry, the desired end of closeness of estimating does not seem to be achieved.

Much evidence was given to the Committee by both boards and hospital management committees tending to show that the strict limitation of expenditure to the sub-heads of estimates approved by the Ministry was a deterrent to economy. A saving under one sub-head may not be transferred to another sub-head without the Ministry's consent and since at the end of every financial year, the authority to spend any unspent money lapses, the hospital authorities are tempted to make their estimates for every sub-head as large as possible and then to spend all the money allocated to them on what they can within that sub-head. Coupled with the request of hospital management committees to be allowed to transfer between sub-heads was the request to be allowed to carry over unexpended balances. It was urged that hospitals would be more economical if they knew that any saving they might make on their estimates would not be lost at the end of the year. The Ministry of Health resisted the proposal on the ground that such a system is quite contrary to established principles regarding voted moneys other than grants in aid. In the event of the introduction of a system of grants in aid or 'block grants', the authorities receiving such grants would automatically possess powers of transfer and carry-over. Possession of these powers appeared to be one of the main objects of the advocates of block grants. For a block grant system to be effective, however, it is necessary for the grant to be made either of a fixed amount or at least in accordance with a definite formula for a series of years.

The only hospital accounts which are published are the summarized accounts presented to Parliament with the report of the Comptroller and Auditor-General thereon. These accounts, say the Committee, are not only out of date by the time they are presented – the accounts for 1949–50 were not published until the end of April 1951 – but they are also useless as a means of studying and checking expenditure. It considers that the Ministry of Health should be able to prepare their accounts by the statutory date (November 30th), and it recommends that the Ministry should present them with an analysis which would be of real value in examining unit costs in different types of hospitals.

The Ministry of Health favour the local publication of hospital accounts, but the Treasury have suggested to the Ministry that the accounts should be coupled with the auditors' reports. The Ministry think this would cause difficulties as their auditors' reports have not hitherto been designed for public consumption; they fear that if auditors know that their reports are to be published, they may be less frank in their comments and may even be influenced by fear of actions for libel. The Committee share the view of the Ministry that early publication locally of the general financial position of hospitals is desirable but they hesitate, however, to accept any proposal which would limit in any way the full freedom of the Ministry's auditors to make any comments they think necessary, particularly as they are informed that the Comptroller and Auditor-General relies very largely on the reports of these auditors in his examination of hospital expenditure.

It is obvious from the above general summary of the report that all is far from well with the financial arrangements of the service, and equally obvious that an urgent necessity exists for a radical change from the niggardly control on a year-to-year basis and other ineffective methods. Having shackled the service with a rigid system of financial control likely to discourage local initiative, the Ministry has increasingly shown alarm at the rising costs and swollen staffs and in a series of measures has added further shackles which appear to have only intensified the problem. As the Committee says: 'The development of the health service appears to have reached the parting of the ways.'

COMPANIES REPORT

THE Board of Trade has published the general annual report on matters relating to companies for the year 1950, the second complete year during which the Companies Act, 1948, was in force. It shows a continuance of the decline in new registrations previously noticed, although at a reduced rate. The figures for the last three years of new companies are 16,344, 14,448 and 13,906 respectively. Of the 13,906 new companies, 13,746 were registered with a share capital but only 26 of these were public companies, although 36 more were speedily converted to public companies after registration. The total number of companies on the register increased further during the year, the number dissolved or struck off being only 10,479. Of these only a quarter represented companies wound up in the ordinary way, the remainder being moribund companies struck off the register as a result of action taken by the Registrar. In view of the expense and trouble of forming a new company it is strange that more use is not made of the device of acquiring the shares in one of these dormant companies, particularly as objects clauses may now be altered without difficulty.

Winding-up petitions dealt with by the Court numbered 658, against 604 in 1949, and 464 orders (against 413) were made, another indication of the altered economic situation. It is interesting to recall that in 1944 only 44 orders were made. Voluntary liquidations numbered 2,613, a decline on the previous year. The swing from public to private companies continues. Just under 60 per cent of the latter had the status of exempt private companies, 177 having acquired it under the proviso to Section 129 of the Companies Act. In relation to the remainder, the Board of Trade have authorized the appointment as auditors of 403 persons who are not members of a 'recognized' body of accountants. Roughly half of these hold overseas qualifications, the remainder having practised in this country before August 6th, 1947.

Once again the Board of Trade had to veto as many as 6,000 new names as being undesirable, 80 per cent of them being too like names already on the register. Obviously this problem will increase as time goes on. Over 1,600 companies were allowed to change their names during the year. There was a sharp increase in prosecutions for offences under the Companies Act, the total being 286 against 180. This was probably due not so much to an increase in the incidence of default as to a stiffening attitude on the part of the authorities. The chief failure was in the lodging of annual returns, for which there were 124 prosecutions, against 54. When this figure is compared with the 7,953 companies struck off as moribund under Section 353, it is clear that proceedings are taken for this kind of lapse in only a small fraction of the possible cases, a fact which goes far to temper the severity of an Act which bristles with penalty provisions. Failure by voluntary liquidators to file accounts produced 63 prosecutions, failure to keep a register of directors and secretary produced 44. There were two successful prosecutions for the improper use of the word 'limited' and only one for failure to keep proper books of account, from which it would appear that the task of showing a 'true and fair view' of the state of the accounts of over a quarter of a million companies has been adequately performed.

Applications to appoint inspectors numbered 83 but appointments were made in only eight cases. Earlier investigations resulted in proceedings in two cases, one resulting in acquittals and the other in convictions. The comparative minuteness of these figures reflects great credit on the business community in general and emphasizes the fact that but for a very tiny minority of dishonest persons the Companies Act could be made very much simpler and less onerous. The right of the public to inspect company files is by no means a theoretical one; it was exercised some 315,000 times in 1950, a fact which may surprise even those who are familiar with the bustle of the inspection room at Bush House.

The Board of Trade collected nearly £1½ million in capital duty in 1950, and over £200,000 in fees, and received over 502,000 documents for filing. Perhaps the most depressing change in this year's report is its price. The last report, published in December and of the same length, cost sixpence; the present one costs ninepence.

THE ACCOUNTANT IN INDUSTRY

Proposed New Qualification in Management Accounting

THE Institute of Cost and Works Accountants has just announced the following proposed alteration in its grades of membership which, if adopted by its members, will create a new and distinctive qualification in management accounting:

> Members of the Institute of Cost and Works Accountants have before them a scheme to establish the Fellowship grade of the Institute as a qualification in management accountancy. This scheme, when approved, will provide a qualification of high standing that will benefit the accountancy profession as a whole and provide reliable evidence to industry of competence and experience in management accountancy.
>
> The Institute will thus award two grades of membership, viz. the Associate member, as at present, for a qualified cost accountant, and the Fellow member for a qualified management accountant. Both grades of membership are, as in the past, open to members of other recognized professional accountancy bodies.
>
> Post-war experience has emphasized the importance of the dynamic functions of the accountant in industry in providing management with the means of efficient day-to-day control of the operations of a business undertaking. In recent years, industry has made increasing use of the cost accountant's activities, while new techniques of management accountancy have been developed; standard costing and budgetary control systems and the provision of control statements to operating departments and in consolidated form to top management are being more and more widely employed.
>
> The trend in industry today is towards integrated systems of accounts, combining both the newer management accounting functions and the financial accounting functions under the control of one person, competent in the techniques of both.
>
> It is clear that the holders of key appointments in industrial accountancy must be fully qualified men with wide experience of the requirements of managements. While Associate membership of the Institute of Cost and Works Accountants has long been recognized as the appropriate qualification for the cost accountant and indicates that the holder possesses a good part of the knowledge required by the management accountant, no recognized superior qualification is offered by any professional body to indicate overall competence and adequate experience appropriate to the senior appointments in management accounting.
>
> The award of Fellowship of the Institute of Cost and Works Accountants in management accountancy will provide this qualification.
>
> Fellow membership under the scheme will be open to all Associate members of the Institute and to members of other accounting organizations, provided they pass the Institute's Fellowship examination in those subjects not adequately covered by their own examining bodies and comply with the conditions laid down, which prescribe a minimum age limit of 26 years, evidence of five years' experience in, and current engagement in, a responsible position in management accountancy.

Hitherto, the Institute has existed as a specialist body confined to the field of costing and, as such, has been careful not to encroach on the work of the accountant in general practice. It now considers that, as the training and background of its members already go a long way towards providing an overall qualification in management accounting, this proposed extension of its activities is a logical development, justified by the ever-increasing demand for highly skilled accountants in industry.

The standard of competence expected of candidates for membership of the Institute has always been commendably high and there is no reason to doubt that to become a Fellow, if the scheme is adopted, will be a meritorious achievement. Whether, however, it will secure for its possessor quite the distinctive advantage which the announcement implies remains to be seen. This is an age of specialization, and the careful blend of the academic and the practical in the training afforded by the principal accountancy bodies strengthens character and stimulates initiative, both of which are essential to the successful management accountant.

As we have so frequently urged, the ultimate aim of the accountant, whatever his angle of approach to the profession he has chosen, should be efficiency and any objective move to encourage this ideal must be welcomed. The Council hopes that, as in the past, many members of other accounting bodies will seek to avail themselves of the further qualification the Institute offers. A number of points – among them the scope of the examinations and the status of existing Fellows – await clarification, but full particulars will no doubt be forthcoming in due course.

EASING AN EXECUTOR'S BURDENS

by A. R. ENGLISH, A.C.A.

The author suggests steps which the owner of a family business might take to reduce the difficulties his executor may face when seeking to raise funds for the payment of estate duty.

Difficulties Created by Finance Act, 1951

IN my article 'Finance for executors', consideration was given to the position of an executor of an estate the main asset of which was shares in an unquoted company.[1] The difficulties brought about by the necessity to raise substantial amounts for estate duty were considered and suggestions as to the means of liquidating such liabilities were advanced. Since the writing of that article, a new Finance Act has become law and certain fiscal sanctions have been imposed upon the redemption of bonus issues which were suggested as a means by which the necessary funds could be raised.

Under the Finance Act, 1951, bonus issues are to be treated as distributions for the purposes of Section 35, Finance Act, 1947, as and when redeemed or, in liquidation, repaid. Although this may appear to be an impediment to the issue of bonus shares or debentures, it should not be regarded as an insurmountable obstacle. In the original article it was suggested that the issue by way of bonus of redeemable shares or debentures was designed to produce an investment attractive to the institutional investor. It should not, however, be imagined that such an investor would insist on a redemption date merely to secure repayment at a given time, but rather that he wished to limit the period or term of an investment with a view to being able to renegotiate at stated times under the conditions then ruling. In consequence, it is extremely unlikely that a company in which an institutional investor holds a block of redeemable shares or debentures would be put in jeopardy by the enforcement of the redemption provisions.

If, during the life of the investment, the company has prospered and through expansion has not the liquid resources available to redeem at the due date, the company should have no difficulty in raising funds even, as would be extremely unlikely, if the original investor were not willing to extend his interest in the company for a further term of years. In fact, it is hardly conceivable that any factor other than unprofitable trading or inept management would cause the holder of redeemable securities to bring about a position which might give rise to liquidation.

Nevertheless, it has to be admitted that the Finance Act, 1951, has made more difficult the position of an executor of an estate holding large blocks of unquoted shares. It therefore behoves all business men who might, by default of immediate action, place their executors in such a position, to consider carefully the course to adopt during their lifetime.

Living Shareholders to take Precautionary Steps

Since the owner of shares in an unquoted company has in most cases far greater flexibility of manoeuvre than his executor is likely to have, it is usually easier to prepare and negotiate schemes for the provision of the necessary finance in the autumn of life rather than to wait until death intervenes. If, during the course of the negotiations for the provision of the funds with which to pay the expected estate duty, the owner is able to arrange his affairs in such a way as to reduce the potential liability to estate duty, he will be conserving a valuable business as well as saving his executors much financial worry. Unfortunately, Finance Acts view with disfavour attempts at conservation and in consequence, all arrangements to save estate duty must be considered in the light of the various enactments designed to raise the maximum amount of duty for the State.

Basis of Valuing Unquoted Shares

Before discussing the steps the living shareholder might take, a review of the basis upon which shares in unquoted companies are now valued for estate duty purposes should be helpful.

It is not proposed to make an historical study of the various enactments between 1894 and the present day, but to confine comments to the two Acts which affect most vitally the position of a shareholder in a company whose shares are not quoted on a recognized stock exchange.

The Finance Act, 1894, provides in Section 7 (v) that

'the principal value of any property shall be estimated to be the price which, in the opinion of the

[1] *The Accountant*, March 3rd, 1951.

Commissioners, such property would fetch if sold in the open market at the time of the death of the deceased.'

From time to time the executors of estates holding unquoted shares have sought the help of the Courts in determining the value of such shares, particularly in cases where the shares are under a disability regarding transfer. An early case (*Attorney-General (Ireland) v. Jameson* ([1905] 2 Ir. R. 218) gave the executor no relief because, by reason of rights of purchase given to other members under the company's articles of association, the shares in question were not saleable in the open market. In the succeeding years a number of such cases came before the Courts, culminating in 1937 in the House of Lords case, *C.I.R. v. Crossman* ([1937] A.C. 26). Here, after hearing many expert witnesses, a valuation on the footing that 'the whole world was hypothetically there, making hypothetical bids' was established. The House of Lords further decided that the basis of valuation was by reference to past and future dividends and the return offered by quoted shares in a company of the same class, with a deduction to cover the difficulties inherent in marketing an unquoted share.

To the majority of shareholders of private companies Section 55, Finance Act, 1940, as amended by Section 47, Finance Act, 1946, has far greater importance, for here is laid down the basis of valuation of shares in or debentures of a company passing on a death after June 27th, 1940, if at any time during the five years prior to that event the deceased:

(*a*) had control of the company *or*

(*b*) was entitled to more than one-half of the total dividends declared or interest accrued due by the company, *or*

(*c*) owned one-half or more of the aggregate nominal amount of shares in or debentures outstanding, provided that no other person had at the same time control of the company.

Considering the section in detail, it will be noted that it relates to shares and debentures deemed to pass at death. Hence, shares and debentures the subject of a gift *inter vivos* fall within its scope. This can be a great source of hardship when the present owner is a minority shareholder, since unless otherwise provided by the will, the recipient of such a gift is personally liable for the duty thereon. This minority disability can extend to the deceased's estate as well, for the rules above quoted apply to a status, not at the date of death, but at any time during the five years ending with death. It is thus possible to have a number of blocks of shares owned by various interests all valued on the assumption of a control no longer vested with them.

Definition of Control

Having studied the importance of the time factor, it is necessary to consider the evidence required to establish that control was vested with the deceased. Subsection (3) of Section 55 enacted that control of a company is established if the deceased had

'(*a*) the control of powers of voting on all questions, or on any particular question, affecting the company as a whole which if exercised would have yielded a majority of the votes capable of being exercised thereon; or

(*b*) the capacity to exercise, or to control the exercise of any of the following powers, that is to say, the powers of a board of directors or of a governing director of the company, power to nominate a majority of directors or a governing director thereof, power to veto the appointment of a director thereof, or powers of a like nature;

or if he could have obtained such control or capacity by an exercise at that time of a power exercisable by him or with his consent.'

In the subsection itself, there is no definition of the word 'control'. Accordingly, help must be sought from various decided cases. To the writer's mind, the most important of these is the national defence contribution case, *British American Tobacco Co Ltd v. C.I.R.* (29 T.C. 49) in which a controlling interest was established through a series of companies. On the arguments of this case, control can be evidenced in a most indirect manner. Although this position may be unusual in most private companies, it is a danger which should never be overlooked.

More frequently, control arises through the giving under the articles of special powers to the position of governing director. The creation of such a post was very common in articles drafted in the early part of the present century and any shareholder occupying such a position would be well advised to have such an article rewritten at the earliest opportunity.

Having established that the shares or debentures have to be valued under Section 55 the next step is to consider the basis of valuation. In brief, it can be the value of the company sold as a going concern, including goodwill, or the

aggregate sale price of the individual assets. Relief has to be given for all liabilities and deferred and contingent liabilities have to be valued on a reasonable basis. Having regard to the decision in *Duffy* ([1948] 27 A.T.C. 324) the reserve for future income-tax cannot be deducted as a liability. To date there has been no judicial pronouncement on the correct treatment of the contingent liability arising from profits tax non-distribution relief received prior to death. In practice, it is understood that a concessional deduction may be claimed.

With these piecemeal valuations of assets and present-day inflation, it can be appreciated that extremely high values can arise even in the case of businesses showing comparatively modest profits.

Quotation on Stock Exchange

Since to defer any steps until the death of an important shareholder may involve the break-up of the business, more and more accountants are being asked to advise on the course of action a client should pursue during his lifetime.

The obvious step is to take advantage of Section 55 (4), Finance Act, 1940, which enacts that

> 'This section shall not apply to the valuation of shares or debentures of a class as to which permission to deal has been granted by the committee of a recognized stock exchange in the United Kingdom and dealings in the ordinary course of business on that stock exchange have been recorded during the year ending with the death of the deceased. . .'

To secure full protection under the subsection above given, dealings must be recorded in each type of investment held by the deceased. As regards the London Stock Exchange, permission to deal usually necessitates the making available to the market, in the case of placings of at least 25 per cent and, in the case of introductions, of at least 10 per cent of the nominal amount of the investment under issue, provided that, in the latter case, there are already in existence forty to fifty holders of the security in question.

In the case of a shareholder who has made substantial gifts of shares or debentures this may be impossible without the goodwill of the donees. There is, in addition, the further difficulty of seeing that 'dealings in the ordinary course of business' have been recorded during the year ending with the death of the deceased.

As was indicated in the previous article, the costs of raising on a stock exchange a relatively small amount, say £20,000–£30,000, may be prohibitive. With the proposed limitation of dividends, there is the further danger that the potential yield which can be offered may make a small issue, with its limited market, quite unattractive to investors of the type usually interested in such investments.

Interesting the Institutional Investor

Thus, inevitably, the owner of a company wishing to cover his liabilities to estate duty is forced to recapitalize the business in a form attractive to the main buyer at the present time of long-term investments, i.e. the institutional investor. In this connexion the additional liability to profits tax arising on the redemption of a bonus issue has already been considered. Anyhow, such an issue cannot exceed £50,000 in any one year unless permission is obtained from the Capital Issues Committee.

Although, at the present time, applications for bonus issues by the capitalization of accumulated revenue reserves are, in the case of most medium-sized companies, regarded sympathetically by that Committee, they appear to have set their minds firmly against bonus issues arising from the capitalization of capital reserves created by the revaluation and consequent writing-up of fixed assets. Whilst it is possible to appreciate the motives dictating this policy, it is very hard on the taxpayer to find himself precluded from creating shares to represent the present-day value of assets, especially as his estate at death would be valued for estate duty purposes at such prices.

Fortunately for the taxpayer, there are means of avoiding this impasse. Even if the proposed issued capital exceeds £50,000 there is no necessity to seek Capital Issues Committee consent for the formation of a company to take over an existing business. Article 3 of Borrowing (Control and Guarantees) Order No. 945 of 1947 provides:

> (3) This article shall not apply to money raised by the issue by a private company of shares to the vendors or the nominees of the vendors of any undertaking sold to the company if
> (*a*) the shares are all fully paid; and
> (*b*) the money raised is cash forming part of the assets of the undertaking or cash which has been paid to the vendors as, or as part of, the purchase price of the undertaking.'

It will thus be seen that subsection (3) allows for the formation of the new company without restriction as to the price paid for the assets of the vending company. Thus, fixed assets can be sold at present-day prices.

Taxation Complications

Although this procedure can create a company with a capitalization in line with present values, it envisages the ultimate liquidation of an existing company and, in consequence, possible additional liabilities to sur-tax, profits tax and income-tax. Reviewing these taxes separately, the following difficulties can be expected and perhaps overcome.

A direction to sur-tax under Section 21, Finance Act, 1922, as amended, can be made by the Special Commissioners in respect of the income for the last accounting period of any company falling within the scope of that section, since, by virtue of Section 31 (4), Finance Act, 1927, such income is 'deemed to be income for that period available for distribution to the members'.

The harshness which this rule would involve has been mitigated by concessional treatment in cases where the liquidation of the existing company is solely designed to effect a capital reconstruction and does not involve the side-tracking of funds into the hands of the shareholders. During the debate on the Special Contribution,[1] the Solicitor-General said:

> 'I can give him the assurance that where the liquidation takes place for the purpose of reconstruction or amalgamation and not for the purpose of withdrawing funds from the company, in other words, that it is a genuine amalgamation or reconstruction, it was not during 1947–48 the practice of the Special Commissioners to make a direction in respect of the income for the final period.'

This practice still continues and in consequence, the shareholders in a company likely to be liquidated to complete a genuine reconstruction scheme need not fear a direction in respect of the last accounting period.

Special Profits Tax Relief

Having thus disposed of this particular sur-tax problem, the question of profits tax becomes of importance. Again, relief is made available to the taxpayer, party to a genuine reconstruction. Since the original company would be liquidated and its assets, now only shares in the new company, distributed to its members, a distribution charge equal to the aggregate non-distribution relief already received would fall on the original company under the provisions of Section 36 (1), Finance Act, 1947. Relief, however, from this liability is given by subsection (4) of the same section which enacts:

> 'Where
> (*a*) as part of a scheme of amalgamation or reconstruction a trade or business carried on by a body corporate (in this subsection referred to as "the first company") is transferred to another body corporate (in this subsection referred to as "the second company");
> (*b*) the consideration for the transfer consists wholly or mainly of shares in the second company . . .
>
> the provisions of this Part of this Act shall apply subject to the following modifications, that is to say:
> (i) Any distribution of those shares to any person in a winding-up of the first company shall, notwithstanding anything in subsection (1) of this section, not be deemed for the purposes of the last preceding section to be a distribution to that person; and
> (ii) in considering what distribution charge, if any, falls to be made on the second company, any difference on which non-distribution relief for chargeable accounting periods before the transfer was given to the first company or other person assessable to profits tax on the profits of the trade or business of the first company shall, except so far as it has already operated to increase a distribution charge on the first company, be taken into account as if it had been a difference arising in relation to the second company on which non-distribution relief had been given to that company, and shall also be taken into account, in the case of the last chargeable accounting period of the second company, so as to increase the amount which, for the purposes of paragraph (*c*) of subsection (1) of the last preceding section, is to be treated as not a distribution of capital.'

In short, this section postpones the profits tax liability on what is in effect a bonus issue until the last chargeable accounting period. Accordingly, if part of the purchase consideration is satisfied by the issue of redeemable preference shares, the prior redemption of such shares does not give rise to an immediate additional profits tax liability, since Section 31 (5) (*b*), Finance Act, 1951, which deals with the effect on profits tax of capitalization of reserves, enacts that

> 'where the body corporate, society or other body has acquired any business, undertaking or property for full consideration, any loan capital or redeemable preference shares issued by the body corporate, society or other body in or towards payment therefor shall be deemed for the purposes of this subsection to have been issued for full con-

[1] *Hansard*, June 22nd, 1948, Columns 1254–5.

sideration paid in cash to the body corporate, society or other body.'

Saving of Profits Tax

It should not be overlooked that when the liability to profits tax so deferred becomes payable, the rules laid down in the Sixth Schedule, paragraph (3), Finance Act, 1951, bring the original non-distribution relief into charge at the rates applicable to the old company, whereas, if there had been a simple bonus issue, the profits tax arising from redemption thereof would be related primarily to the rates nearest to the date of redemption. Accordingly, a position could arise whereby a bonus issue made in part from pre-profits tax profits, i.e. accumulated prior to December 31st, 1946, would be subject in its entirety to profits tax on redemption whereas if advantage is taken of Section 36 (4), Finance Act, 1947, the liability would be limited to the actual non-distribution relief received to the date of the reconstruction.

Although the relief offered under Section 36 (4), Finance Act, 1947, is restricted to cases in which the consideration is wholly or mainly in shares, it would appear that if in order to provide a security attractive to a particular investor a debenture must be made available, this may be done and the above-mentioned relief secured by the issue of a bonus debenture prior to the formation of the second company. Thus, on the reconstruction, the new company assumes this and probably other liabilities as part of the trade or business transferred to it, and still satisfies the requirements that the consideration must consist wholly or mainly of shares in the new company.

It would also appear that since such debenture was taken over as part of the purchase consideration, the redemption thereof would not rank as a distribution. Nevertheless, it must be understood that this relief is only a deferment of a liability, albeit perhaps, a very long-term deferment.

Saving of Estate Duty

Before passing from the subject of profits tax, consideration must be given to the advisability of securing the maximum non-distribution relief. Until it has been established that for the purposes of Section 55, Finance Act, 1940, as amended, a deduction as a liability will be allowed for all non-distribution relief received, it would appear to be to the advantage of the taxpayer's estate, if circumstances are such that the valuation of the shares must be under the terms of that section, to see that the affairs of the company are so arranged that as little non-distribution relief as possible is outstanding at any time. This will of course reduce the assets of the company and in consequence the value of the shares passing at death.

If such a position were established by way of loans regarded as a distribution under Section 36 (1) (*c*), Finance Act, 1947, there would be the danger that the Estate Duty Office might seek to value as an asset the refund of profits tax which would arise upon the repayment of such loans.

Deferred Liquidation

Lastly, when considering the question of liquidating a company and forming a new company, the increased liability to income-tax in consequence of the cessation and new business rules must not be overlooked. If, in order to take advantage of Article 3 of Borrowing (Control and Guarantees) Order No. 945 of 1947, it were necessary to liquidate immediately the vending company, the operation would have in many cases to be held up until the profit trend were such as not to give rise to material increases in income-tax liabilities. In practice, provided this liquidation is not deferred unreasonably, a holding company may be formed under this article to acquire in the first instance the shares of the original company in exchange for its own shares. If this procedure is adopted, the date of the liquidation of the original company can be fixed at a time which should not give rise to penal additional income-tax liabilities.

Conclusion

Despite the assurances in the recent White Paper on Estate Duty and Family Businesses,[1] most accountants view the effect of estate duty on the affairs of many clients with concern. This article endeavours to draw attention to the steps available to a business man who wishes to arrange his affairs so as to facilitate the closing of his estate at death. Although to many clients no subject is more distasteful and one which must be approached with the greatest tact, there is no reason why the practising accountant should avoid this question in discussion with his clients. Indeed, he would be shirking his duty if, in many cases, he did not point out the financial problems arising on death. To the many accountants facing this unenviable task, this article is addressed in the hope that some of its thoughts may be of assistance.

[1] Cmd. 8295.

WEEKLY NOTES

The King

The encouraging news conveyed in the daily bulletins of his doctors, that the King is slowly gaining strength following his operation for lung resection at Buckingham Palace last Sunday, is received with the greatest relief by the entire community at home and oversea.

Although general anxiety regarding His Majesty's health will continue until it is known that all danger has passed, the present good news of his progress reinforces the sincere and ardent hope of the profession that His Majesty's recovery will be speedy and complete.

Tax Treatment of Retirement Benefits

Difficult and technical as its terms of reference are, the Millard Tucker Committee on the Tax Treatment of Retirement Benefits will not be lacking in expert advice or assistance in coming to its conclusions.

In addition to the evidence already reviewed in this journal, two helpful memoranda have been submitted by the Council of the Institute of Actuaries and the Faculty of Actuaries in Scotland. As the Council says, provision for retirement and for dependants is a subject with which actuaries are concerned in their professional capacity. Their views are therefore worthy of special consideration. It is interesting to note that the Council is in broad agreement with the general principles set out in the joint report of the Federation of British Industries, the Association of British Chambers of Commerce, the Life Offices Association, and the Association of Superannuation and Pension Funds, subject to some modifications. This joint report was reviewed by us on August 25th last.

The Institute of Actuaries also associates itself with the representations made to the Chancellor on March 1st, 1949, by the Law Society and The Institute of Chartered Accountants regarding the effect of present taxation on the retirement and recruitment of persons engaged in private practice. As regards the transition to any new scheme of tax relief, the Council makes a special plea for sympathetic treatment of existing funds and schemes whose solvency may depend on the continuance of the concessions at present enjoyed by them.

The Faculty of Actuaries in Scotland puts forward proposals which also resemble those made in the joint report referred to. As regards ordinary endowment insurance, the Faculty boldly suggests that although the tax exemption of lump-sum receipts be continued, full exemption be also allowed for the income applied in premiums. The Faculty has a special word for controlling or part-time directors, recommending that any privileges granted to employees of their companies in relation to pension schemes should also be enjoyed by them.

Brass-foundry Productivity Report

The report of the British brass-foundry industry team which visited the United States last year under the auspices of the Anglo-American Council on Productivity, published this week, is the longest of the series so far, containing 173 pages and almost as many illustrations.[1]

The constitution of the industry in the United States, the team states, is the same as in this country, being made up of a large number of relatively small foundries. While Great Britain is superior in techniques, the output per man-hour in America is greater because of the stronger incentive in that country to earn; the closer relationship between management and employees; better layout and design; the maximum use made of mechanical aids to conserve effort and of methods of standardization, simplification and specialization; the use of patterns and core-boxes of high quality and accuracy; willingness to buy new plant and to try out new methods; and, finally, because of the attention given to planning, welfare, safety and housekeeping measures.

The team recommends that to obtain increased productivity in this country the Government should seek to rekindle the spirit of adventure in both management and workers, and that the industry should promote a greater incentive to earn more among all levels of its members by the introduction of bonus and profit-sharing schemes. Particular attention, also, should be given by management to plant layout, production planning, the use of mechanized appliances and the possibilities of specialized methods. Relations between employers and men should be close and harmonious and both sides should be continually receptive of new ideas and techniques. The British worker, the team concludes, should make up his mind whether he wants security and leisure or a better standard of living. The latter, it maintains, can be obtained only by effective work, industriously applied.

Much of the report is necessarily technical but the sections on American working conditions, labour relations and welfare and those on planning, costing and incentives, have a wide application and, for this reason, will be studied with interest by executives in other industries. Not everyone will agree unreservedly with the team's conclusions, but for the clarity with which these have been set down there can be nothing but praise.

Coal and Steel Shortage

The slow rate at which coal production overtakes consumption and so allows stocks to be built up for the winter is still causing grave concern. The stock position is slightly better than at this time last year.

[1] Copies of the report (price 7s 6d, post free), may be obtained from the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1.

At the close of the week to September 8th, the latest date for which coal stock figures are available, stocks were 14·5 million tons against 13·7 million in September 1950. The safety point to be achieved by November when the winter season starts is 18 million tons. There is therefore a considerable way to go.

The major industry most likely to feel the first serious impact of a coal shortage would be steel. Last year the steel industry's import programme for scrap was seriously interfered with by the demands made on shipping at the last moment to import coal, and the same could happen again if a decision to import large quantities of coal were taken at the last minute. Also the steel industry is going to require more coking coal next year (which will cover the second half of the 'coal winter') to provide coke for pig-iron production. A large increase in pig-iron production is scheduled for next year which in turn is expected to provide more iron for steel production. Even at present, coke deliveries are below allocation. The industry is also worried that the large cuts which have been made this year in the quota of coal for export – cuts which look like remaining for some time, remove a valuable bargaining counter for obtaining supplies of scrap and rich ores. Maintained supplies of scrap are particularly necessary for those plants not situated on ore fields, or on exhausted ore fields, and the industry generally is becoming increasingly dependent on high-grade imported ores for technical reasons.

Much of this raw material difficulty for the steel industry is short-term. But that is no consolation for an industry which has to plan its production through the coming winter months on some very complicated hypothesis about raw material imports and coal exports. The impression is growing that steel, like electricity, will have little control, before the spring, over the short-term factors influencing production.

Raw Materials Talks Begin

The Commonwealth conference on raw materials was opened on Monday. In a Press conference afterwards, the Lord Privy Seal said that the purpose of the meetings was to focus attention on raw materials shortages in anticipation that something practical would come out of their deliberations. Nothing could be more non-committal than that.

The Ministers seem to have skated delicately over general questions of raw materials prices and the long-term supply problems of commodities and the manufactured articles which will be sold in exchange for them. Nothing was announced from early sessions at the conference table which could in any way embarrass those conferring or could signify that any particular country had taken up a certain attitude which it might later have to modify.

Evasive generalities such as this are not uncommon when a Commonwealth conference is in session. They do not mean that conversations have been other than forthright nor that the conference is proving abortive.

There will in fact be plenty of opportunity for frank and useful discussion when it comes to consideration of individual commodities – talks which started after this issue had gone to press. The avoidance of wild price movements and the establishment of 'reasonable' prices for such materials as copper, lead, manganese, nickel, cotton, rubber, sulphur and pyrite, tin, tungsten and molybdenum, zinc and wool (all of which will be covered by the conference) could provide a massive agenda. Add to this the other items on the paper which include such important and controversial matters as capital exports and British export prospects and it is clear that the conference could do a major job of work – if it has a mind to do it.

Trade Gap Difficulties

The trend of import and export prices for the month of August was published last week. They show that for the third month in succession there was an improvement in this country's terms of trade. Briefly, there has been a continued increase in the level of export prices over the year so far and since June, a slight fall in import prices.

This improvement has some way to go, however, if the pressure on this country's balance of payments position is to ease. It is now clear from the trade figures available for the first eight months of the year that the dollar problem is back with all its old virulence. The special conditions which operated last year when rising prosperity in the United States allowed this country and the rest of the sterling area to earn large quantities of dollars simultaneously have now passed. The very prosperity which provided the impetus in 1950 has been the cause of a reversal of the position in 1951. American buying has raised the prices of key raw materials to such a level that the countries of western Europe are faced with a serious external trade position in the third quarter of this year.

Western Europe (this country is a particular case of a general problem) is faced with the need to press on with its defence programme, provide exports to help meet the import bill, and to make as small inroads as possible for political reasons into the standard of living. The Chancellor of the Exchequer referred to the need to consider once more restrictions on imports when he spoke on Tuesday about the dollar gap.

The usual signs of impending trouble are already in evidence. The sterling-dollar rate on the 'free' market has been going against the pound and the presence of similar problems across the Channel has been underlined by continued discussion about the need to re-value further the French franc.

So far as this country is concerned, the scope of the problem will be more clearly measured when the next figures are released dealing with the state of the dollar and gold reserves.

FINANCE AND COMMERCE

Having indulged in a minor 'fling' following the announcement of the election date, stock markets have relapsed into their former state of uncertainty. The prospect of the use of the rate of interest as a deflationary weapon, following a change of government, is one of the major points of discussion in stock markets now.

Two colonial issues – British Guiana and Nigeria – and the latest agricultural mortgage operation have increased the borrowing tempo and have indicated a rising rate trend despite an attempt to 'pinch' the market in the latter case. These issues are considered, in some quarters, to pave the way for larger scale borrowing after the election.

At present the authorities seem loath to depart from the actual 3½ per cent interest rate and prefer to adjust terms by shortening life and by greater discount at issue. If, however, some of the State industrial corporations are to come to the market, as they are expected to do, it may be necessary to offer 3¾ per cent for the sake of the length of borrowing.

Given an unchanged government after the election, such a policy seems probable and given a changed government it can be regarded as virtually inevitable. To a lesser or a greater degree, therefore, the trend towards higher interest rates must continue. If political events prove that the greater degree is the more likely event, there may well be fundamental change in the stock market structure as a whole.

Cohen Accounts

Mr George Cohen, chairman of George Cohen, Sons & Co Ltd, maintains that omnibus legislation must often provoke injustice, since it takes no account of special considerations applying to particular cases. The Government, he says, should realize that directors of large and old-established industrial concerns, being fully mindful of their heavy responsibilities, can be relied upon to pursue voluntarily a prudent financial policy.

This company, makers of heavy engineering equipment, maintains 'orthodox practice' in its fixed assets valuation. Mr Cohen, on this subject, refers to those companies which have taken account of the falling value of the pound by earmarking reserves for specific purposes and have, in certain instances, 'departed from traditional methods of valuation of assets'.

If funds are adequate to cover all responsibilities, as is the case with this company, the precise method of presentation of the accounts assumes secondary importance, Mr Cohen maintains. 'An extra provision for depreciation computed at current replacement costs over the anticipated life of the assets,' Mr Cohen continues, 'would almost certainly prove inappropriate for our requirements during the next few years. Additionally, a "Stock replacement reserve",' he states, 'could only be calculated on information available at a particular time and would stand to be falsified by changes in the composition of stocks due to alterations in designs and methods or other causes.'

The board therefore provide for the future in free reserves, preferring the advantage of retaining flexibility in their utilization. 'Nor have we revalued our fixed assets,' says Mr Cohen, who thinks it is quite conceivable that predatory fingers might be pointed at the notional reserves created by revaluation of assets as 'large untapped sources of wealth' remaining untaxed.

Supplementary Information

Whatever views one may have on accounting for inflation, there can be no doubt that the George Cohen company shines in the quality of information given as supplementary to the accounts. A certain portion of this material is included with the reprint of the company's accounts provided this week. The simplified group profit and loss account is particularly useful. Note that it opens with the turnover figure for the group with comparison against the previous year and fits into quite a small space.

Another useful section of the supplement which cannot be included in the reprint is the 'Summary of activities and profits', which identifies the elements in the group, their main activities and the form of industry in which they are engaged and in addition shows in a final column the profit which the separate groups, parent company, subsidiaries mainly engaged in merchanting, and those mainly engaged in manufacturing, contributed to the group total.

Triplex Policy

The directors of Triplex Safety Glass Co Ltd, (chairman, Sir Graham Cunningham) have metaphorically speaking, torn up the Government's White Paper on dividend control and recommend an increased dividend for the year to June 30th, 1951. In so doing they present a not unreasonable case.

Profits are up from £186,306 to £246,759, of which £153,404 (62 per cent) is taken in taxation, leaving a net profit of £93,355. The recommended dividend of 15 per cent, against 12½ per cent, requires £50,961 net.

In support of their action the directors point out that the reason attributed to the need for fixing dividends has been declared to be the psychological effect on labour in view of the rise in the cost of living. But, they say, in effect that does not apply in the case of Triplex because 'some time ago the board declared it as their intention to increase wages from time to time in accordance with the rise in the cost of living index and indeed have given such increases during the current year'. Moreover, the trade unions with which the company has wage agreements have

GEORGE COHEN SONS AND COMPANY LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at March 31st, 1951

1950 £				
	Share Capital and Surplus			
	Share Capital: *Authorized, Issued and Fully Paid:*			
1,500,000	4½ per cent Cumulative Preference Stock			1,500,000
600,000	2,400,000 Ordinary Stock Units of 5s each			600,000
2,100,000				2,100,000
	Capital Reserves:			
570,000	Share Premium Account		570,000	
12,974	Excess Profits Tax Post-war Refund		12,974	
				582,974
45,738	Net Profits on Sales of Fixed Assets			66,161
	Revenue Reserves:			
	General Reserve as at March 31st, 1950		700,000	
	Less Adjustment of Reserves between the Parent and a Subsidiary Company	£64,000		
	Less Transfer from Profit and Loss Appropriation Account	64,000		
		—	—	
700,000			700,000	
65,404	Profit and Loss Appropriation Account		65,707	
	Reserves and Undistributed Profits of Subsidiary Companies	552,666		
	Add Adjustment of Reserves as shown above	64,000		
417,126			616,666	
				1,382,373
3,911,242				4,131,508
63,479	**Interests of Minority Shareholders**			71,392
170,674	**Amount set aside for Future Taxation**			376,131
	Employees' Pension Fund		55,000	
	Less Paid to Pension Fund Trustees		20,684	
55,000				34,316
	Current Liabilities			
653,509	Bank Overdraft		222,228	
1,259,117	Trade Creditors and Accrued Charges		1,384,293	
196,753	Taxation		331,959	
10,750	Deferred Repairs		13,800	
39,600	Proposed Ordinary Dividend (net)		47,250	
2,159,729				1,999,530
£6,360,124				£6,612,877

1950 £	1950 Accumulated Depreciation £	1950 Original Cost £		Original Cost £	Accumulated Depreciation £	£
			Fixed Assets			
729,474	96,626	826,100	Freehold and Leasehold Land and Buildings	877,870	115,820	762,050
564,200	489,359	1,053,559	Plant, Machinery, Tools and Patterns	1,134,768	553,919	580,849
84,147	122,958	207,105	Motor Vehicles and Barges	236,040	147,906	88,134
52,962	45,467	98,429	Furniture, Fixtures and Fittings ..	100,161	51,805	48,356
1,430,783	£754,410	£2,185,193		£2,348,839	£869,450	1,479,389
27,387			**Trade Investments** at Cost			27,387
			Current Assets			
	3,011,800		Stock, Work in Progress and Hire Fleet of Contractors' Plant as valued by the Companies' Officials at or under Cost		2,661,192	
	1,699,830		Sundry Debtors, *less* Provision for Doubtful Debts		2,342,184	
	30,000		Investments in British Government Securities, at Cost (Market Value £30,277)		30,000	
	160,324		Cash at Bankers and in hand		72,725	
4,901,954						5,106,101
£6,360,124						£6,612,877

Note 1. The Assets and Liabilities of a foreign Subsidiary Company have been converted at the current rate of exchange.

Note 2. There are contingent liabilities in respect of Guarantees outstanding amounting to £34,000.

Note 3. Outstanding contracts for capital expenditure are estimated at £184,000 and are due for completion up to March 31st, 1954.

CYRIL M. COHEN
GEORGE LEVY } *Directors.*

GEORGE COHEN SONS AND COMPANY LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss and Appropriation Account for the year ended March 31st, 1951

1950				1950			
£		£	£	£		£	£
10,790	Interest on Bank Overdraft		15,965	499,146	Trading Profits		1,024,090
	Emoluments of Directors of George Cohen Sons & Co Ltd:			18,653	Income from Trade Investments		17,010
900	Services as Directors	900		853	Other Investment Income		798
34,100	Other Emoluments	34,100	35,000				
	Audit Fees and Expenses:						
1,749	Parent Company	1,800					
2,466	Subsidiary Companies	2,479	4,279				
135,614	Depreciation		151,970				
	Taxation based on the Profits of the year:						
71,631	Profits Tax	152,178					
145,790	Income Tax	357,783	509,961				
546	Proportion of Profits applicable to Minority Shareholders		10,249				
804	Undistributed Profits of Subsidiary Companies applicable to George Cohen Sons & Co Ltd		117,448				
114,262	Net Profit of Parent Company, including the results of Subsidiary Companies only to the extent of dividends since declared thereby, carried down		197,026				
£518,652			£1,041,898	£518,652			£1,041,898
				73,558	Balancef rom Previous Year		65,404
—	Cost of inaugurating '600' Group Pension Fund *less* allowance for Taxation		21,948	114,262	Net Profit brought down		197,026
19,291	*Cost of litigation regarding the Quay wall at Stepney*		—	13,757	Provisions made in previous years, no longer required, *less* tax applicable thereto	17,509	
—	Transfer to General Reserve		64,000	13,757	*Less* Retained by Subsidiary Companies	17,509	
	Dividends Paid or Proposed, *less* Tax:			—			—
37,125	4½ per cent Preference Dividend		37,125				
26,400	Interim Dividend on Ordinary Stock at 8 per cent actual		26,400				
39,600	Proposed Final Dividend on Ordinary Stock at 15 per cent actual		47,250				
65,404	Balance carried to Balance Sheet		65,707				
£187,820			£262,430	£187,820			£262,430

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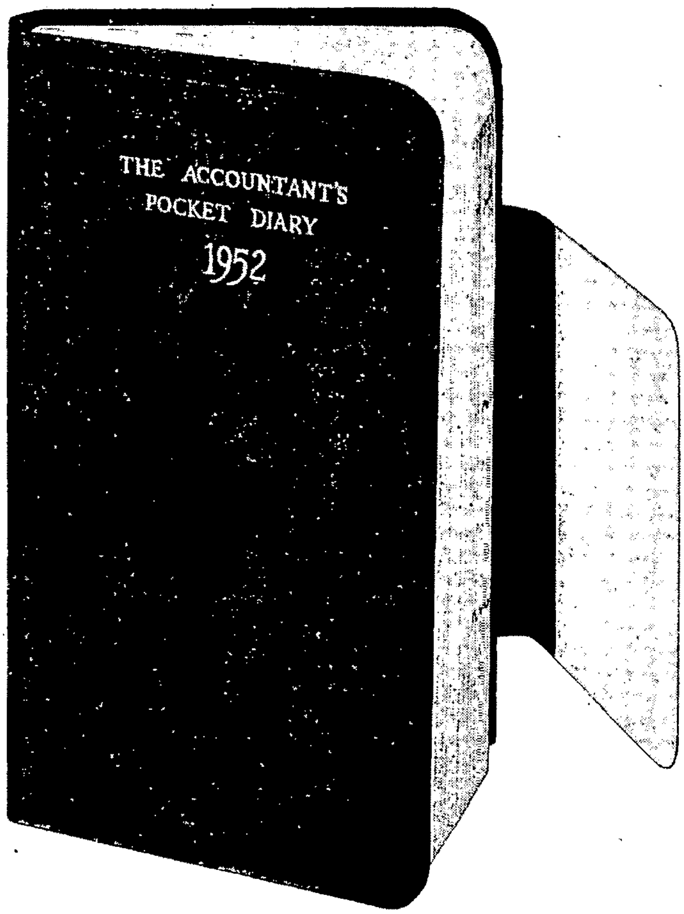

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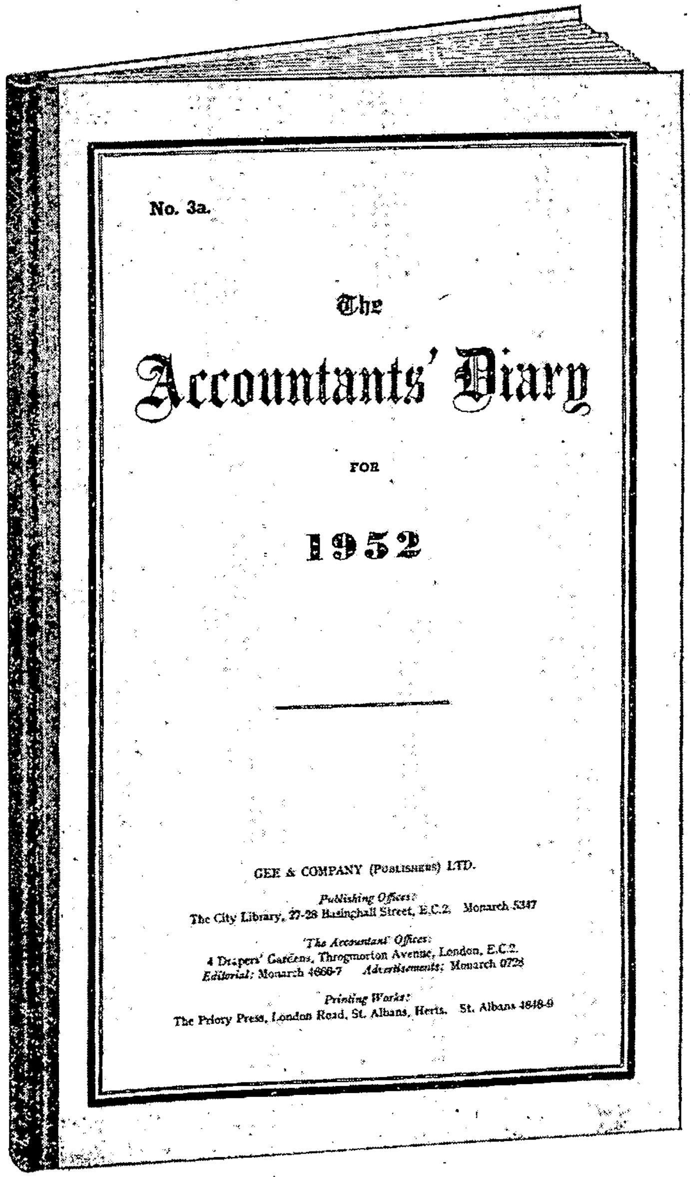

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Y OTHER

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, the Soane Museum?
y the Export Credits

ALL THESE QUESTIONS ARE ANSWERED IN THE TAXATION SECTION:
What are the Income-tax Rates and Allowances for 1951–52? What is the Profits Tax? What are Tax Reserve Certificates? What is the rate of depreciation allowed on aircraft engine manufacture, machine tool manufacture, wrought iron manufacture?

ALL THESE QUESTIONS ARE ANSWERED IN THE STAMP DUTIES AND LICENCES SECTION:
What is the stamp duty on a hire-purchase agreement, an accident insurance policy, a marriage settlement, or a marketable security? What are the present death duties and entertainments duty? What is the cost of a gun licence, a hawker's licence, or a money-lender's licence?

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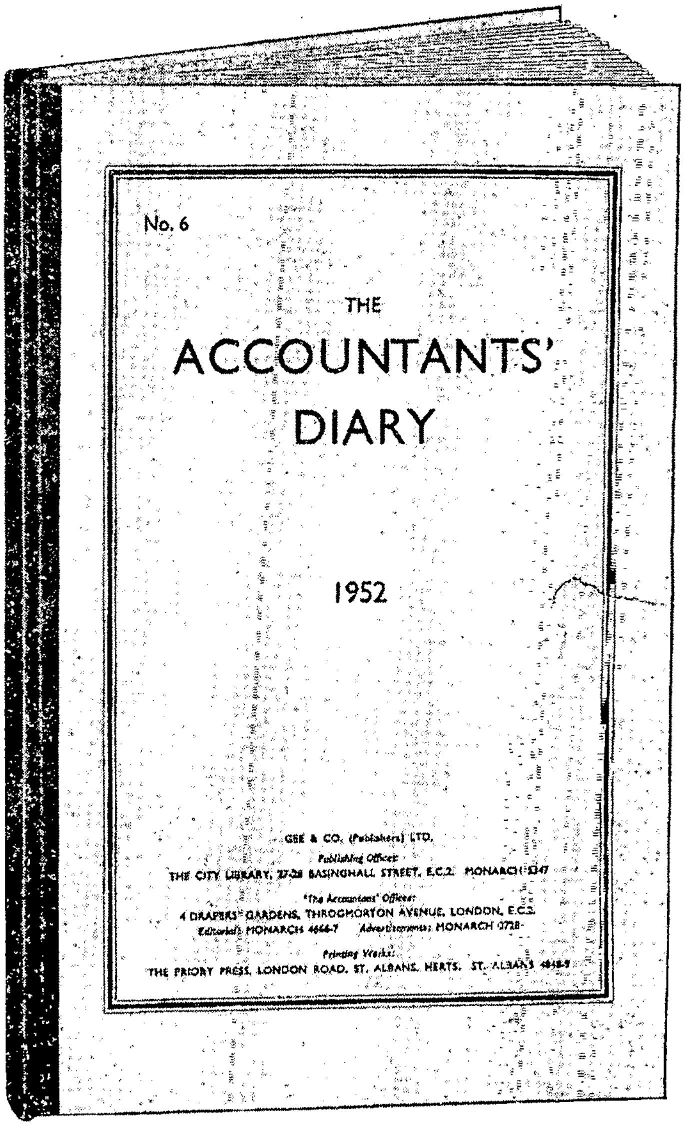
TIME SUMMARY



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SIMPLIFIED GROUP PROFIT AND LOSS ACCOUNT

	1951	*1950*
Group Turnover	£11,889,000	*£9,618,000*
Payments to Outside Suppliers for Goods and Services	8,519,000	*6,830,000*
Net Wages and Salaries (approx. 6,000 persons)	2,194,000	*2,139,000*
P.A.Y.E.	156,000	*160,[illegible]*
Depreciation	152,000	*136,[illegible]*
Net Profit (including proportion applicable to Minority Interests £21,000 *£1,000*)	£86[illegible]	*[illegible]353,000*
Taxation of Profits	526,[illegible]	*223,000*
Net amount paid to Stockholders (approx. 3,000 persons)	112,000	*104,000*
Other Appropriations	22,000	*19,000*
Amount set aside for Replacement and Development	208,000	*7,000*
	£868,000	*£353,000*

	£
Total Capital invested by Stockholders of the Parent Company	4,132,000
Less Applicable to Preference Stock	1,688,000
Total Capital invested by Ordinary Stockholders ..	£2,444,000
A Dividend of 23 per cent on the Nominal value of Ordinary Stock is equivalent to 5 65 per cent on the total Capital invested by Ordinary Stockholders.	
Earnings applicable to Ordinary Stock (i.e. after deducting Preference Dividend and Profits Tax thereon) ..	£742,000
Percentage of those earnings to Total Capital invested by Ordinary Stockholders:	
(*a*) Before charging Profits Tax	30·4%
(*b*) After charging Profits Tax, assuming a full distribution	19·5%

This is what has happened during the year.

NET NEW FUNDS:

After deducting costs, the net new funds utilized in the business were as follows:

	£	£
Trading Profits		847,000
Less Taxation	515,000	
Appropriations	133,000	
		648,000
		199,000
Profits on Sale of Fixed Assets etc.		22,000
		£221,000

THESE FUNDS WERE APPLIED AS FOLLOWS:

	£	£
Extensions to, and Purchases of, Buildings, Plant and Vehicles	201,000	
Less Provided out of Depreciation	152,000	
		49,000
*Additional Working Capital		172,000
		£221,000

*ADDITIONAL WORKING CAPITAL was employed as follows:

	£	£
Reduction in Overdraft		431,000
Increase in Debtors		642,000
		1,073,000
Less Reduction in Stock	351,000	
Reduction in Cash Balance	87,000	
Increase in Amounts set aside for Taxation ..	340,000	
Increase in other Creditors	123,000	
		901,000
		£172,000

This is what happened between April 1st, 1947, and March 31st, 1951

NET NEW FUNDS:

	£	£	£
Increase in Capital (including premiums)			571,000
Trading Profits		2,653,000	
Less Taxation	1,566,000		
Net Dividends	401,000		
Other Appropriations	73,000		
		2,040,000	
			613,000
Profits on Sales of Fixed Assets ..			52,000
Post-war E.P.T. Refund			13,000
			£1,249,000

APPLIED AS FOLLOWS:

	£	£
Extensions to, and Purchases of, Buildings, Plant, and Vehicles	1,224,000	
Less Provided out of Depreciation	495,000	
		729,000
*Additional Working Capital		520,000
		£1,249,000

*ADDITIONAL WORKING CAPITAL:

	£	£
Increase in Stocks	541,000	
Increase in Debtors	916,000	
		1,457,000
Less Bank Overdraft	222,000	
Reduction in Cash Balances	104,000	
Increase in amounts set aside for Taxation ..	342,000	
Increase in Other Creditors	269,000	
		937,000
		£520,000

approved the company's attitude on the question of linking wages with the cost of living.

In these circumstances and so long as the law permits, 'the board feel themselves obligated to recommend the payment of an increased dividend this year to their 8,000–9,000 stockholders who must equally with the employees be suffering a similar increase in the cost of living'.

Stockholders are reminded, however, that if the White Paper is given the force of law, the company's maximum dividend next year would appear to be 7½ per cent. After such plain matter-of-fact speaking, the description of dividend control headed 'Ye Fairie Tayle', with script and illustrations in accord with the title, looks trivial. The space could have been better used to give statistical information.

All Square

There was once a craze for microscopic reproduction such as The Lord's Prayer on a postage stamp. Heaven forbid that it should spread to company accounts and we hasten to explain that the Ruston and Hornsby dual balance sheet occupied 7½ inches square in the original, and not 7½ square inches as we said on page 224 of our issue of September 8th last.

Money Market

Applications for the £240 million of Treasury bills offered on September 21st totalled £335,885,000, an increase of some £3,700,000. Bidding at £99 17*s* 4*d* for the Wednesday bills the market obtained 23 per cent of stated requirements. The bills cover the Christmas holiday. This week's offer is restored to the £260 million level which ruled at the end of last month. There is also a call of £25 million against Treasury deposit receipts this week.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Building Society Interest

SIR, – I think that the contentions advanced by Mr Leigh Bramwell in your issue of September 8th can be answered as follows:

1. Where the special arrangement is in force, the real value of the building society investor's dividend or interest varies according to the rate of tax to which he is liable. The higher his marginal rate of tax, the greater will be his effective gross rate of income and the more attractive will the investment be. This is illustrated by the following table, which assumes a net rate of 2¼ per cent:

Investor's marginal rate of tax	£ s d	£ s d	£ s d	£ s d
	nil	3 0	5 6	9 6
Dividend Received	2 5 0	2 5 0	2 5 0	2 5 0
Effective Gross Income	2 5 0	2 12 11	3 2 1	4 5 8

2. As the sur-tax payer is always liable at the standard rate, the effective return from his building society investment is always £4 5*s* 8*d* per cent and, consequently, the adoption of this figure for sur-tax purposes secures that exactly the same sur-tax is paid as would be if the special arrangement was not in force.

3. If Mr Leigh Bramwell's suggestion were adopted, that the amount received be grossed up at the composite rate, the sur-tax payer would gain at the revenue's expense, as he would be paying tax on £3 1*s* 0*d* per cent (£2 5*s* 0*d* per cent grossed up at the present composite rate of 5*s* 3*d*) instead of on his real income of £4 5*s* 8*d* per cent.

Yours faithfully,

Eastbourne, Sussex. W. A. NEATE, A.C.A.

'Stocks, Standards and Variances'

SIR, – There is one point I should like to have clarified in Mr F. Clive de Paula's excellent and interesting article in your issue of September 15th. This point concerns the manner of dealing with opening stock in the section 'Adjustment from cost to market value'.

The Companies Act, 1948, specifies that the accounts should give a true and fair view of the profit or loss for the financial year. Having established the market value of trading stock for one year's accounts, and written off the difference between market value and cost, surely there can be no question of again reverting to original cost when items appear in both opening and closing inventories? Such a course would involve confusing previous provisions with current provisions and clouding any attempt to find the true trading results of a particular period. Once the audited accounts have been properly approved by the shareholders, the ordinary commercial practice is to accept the balance sheet as a final and unalterable statement representing a true and fair view of the business at the balance sheet date. The nec[redacted] writing down trading stocks to market [redacted] been squarely faced, and as a general princip[redacted] can be no retrospective adjustment. So it i[redacted] the succeeding period begins with its trading stock correctly valued at the commencing date and the result of trading must be measured from that starting point, and not any anterior figure. Whatever figure appears in one set of accounts as the market value of closing stock must appear as the commencing figure in the next accounts in order to arrive at true profit or loss for the next period. To give effect to this view, the following is suggested as an amendment to the specimen computation of the adjustment from cost to market value appearing in the article:

		£	£
Sales			xxxx
Opening stock at market value (as valued in the previous accounts) ..		xxx	
Add Purchases		xxx	
Trading expenses		xxx	
Depreciation of fixed assets		xxx	
Deduct Closing stock:			
(*a*) Old stock as valued in opening stock inventory	£xx		
(*b*) New stock (purchased or produced during the current year), at cost ..	xxx		
		xxx	
			xxxx
Trading profit (or loss)			xxx
Deduct Provision to reduce stock below cost to market value ..		xxx	
Other financial provisions		xxx	
			xxx
Distributable profit (or loss) for the year			£xxx

If the intention of the specimen computation in Mr de Paula's article is to show both opening and closing stocks at cost, then the adjustment to market value must be the difference between the amounts written off the opening and closing stocks respectively. The adjustment would not necessarily be a deduction – an addition would be required if the amount written off the opening stock was greater than the amount written off the closing stock. However, the fact that the specimen refers to a 'deduction' lends support to the view that the adjustment is only intended to embrace (1) the amount required to reduce new stock from cost to market value, plus (2) the amount required to reduce old stock from market value at the commencement to market value at the end of the period. Indeed, the use of any commencing stock figures other than the previous closing

stock figures would appear to cast doubt upon the accuracy of the previous accounts, and it might be very difficult to determine the true cost of old stock. Moreover, in the case of sales of old stock at a loss, it would be grossly unfair to associate with a current period any portion of the loss which had already been borne by a previous accounting period.

The point is of particular importance in connexion with perishable and 'fashionable' stocks, and especially in trades where it is commonplace to carry substantial proportions of the trading stock for more than a year.

Yours faithfully,

London, W1. P. LLOYD.

SIR, – It is not difficult to imagine Mr Clive de Paula sitting back and waiting, tongue in cheek, for the reaction of those learned members of the profession who love to enter into controversies when their pet theories are called into question.

Having no axe to grind on this subject, and believing merely 'that to be conservative and to be consistent' is all that matters providing the method is also expedient, it is hoped that a rejoinder will be provoked if certain points where there is some slight tendency to dogmatism are disputed. It must be admitted, however, that the author has shown consummate skill and wisdom in avoiding expressing any definite opinions on his own account.

Firstly, the application of price variance to raw material or bought out parts should surely, in theory, depend on whether or not stocks are held in respect of products already sold at fixed prices. There are many contracts now which enable manufacturers to increase prices when raw materials and wages rates are increased.

As regards the inclusion of overheads in stock valuation, there seems to be no more logical reason for excluding administrative overheads than there is for excluding fixed works, departmental and general overheads. Both include expenditure for activities which are essential to the manufacture of the product. Then again, selling costs are frequently incurred by some companies before production is started, and should, therefore, in theory also be included.

The idea of treating depreciation as a variable overhead will make many noble pundits shake in their shoes. Nevertheless, it is an interesting idea, but should not there be some sort of fixed provision to cover obsolescence?

However, these are only side issues. The point is, do we value stock and work in progress at standard cost or not? It all depends on what you mean by standard cost! If the accountant is wise, he will, in his ignorance of technical matters, have taken the advice of his colleague, the engineer. This gentleman will want realistic standards to help him control his manufacturing costs, and these standards will if possible have been based on time study. Then the labour cost variance may well be in the region of 20 per cent or more. On the other hand, labour costs may form a relatively small part of total cost, as in textiles, so this will not matter so much.

So we come back to the point where we started, namely, 'be conservative, be consistent and be expedient', and if we can agree on this point, why argue? Unless, of course, we believe that change is the spice of life. There is something to be said for this, but change can only be in one direction. Few business men have sufficient patriotic fervour to make free gifts to the Inland Revenue in these days of 9*s* 6*d* income-tax, profits tax, dividend limitation and the rest. Then the principle becomes ballyhoo and the practical consideration is the probable reaction in the mind of our honourable friend, H.M. Inspector of Taxes.

It is only to be hoped that *The Accountant* will contain more articles in its columns which show the same degree of clarity and analytical thought about industrial accounting problems, concerning which far too little is published.

Yours faithfully,

London, W1. J. N. STEPHENS, A.C.A.

SIR, – Mr de Paula's article, in your issue of September 15th, on 'Stocks, standards and variances', makes no reference to what, in the business I serve, has been common practice for many years. All raw materials and stock manufactured bear a certain starting price or cost at the annual stock-taking. When any of this stock is sold, or raw material issued from the stores for manufacturing processes, the existing prices or costs are used.

During the year fresh raw material is bought, and stock is produced. The following procedure is then adopted. The remaining original stock at the old price is extended out, and the total value is added to the new lot at the new price. The whole quantity is then divided into the whole amount and the result gives an 'averaged' price, which is used for subsequent sales. The same process is repeated when each new purchase of raw material is made, and each new batch of stock is produced.

At the end of the year the prices used at the next stock-taking are these up-to-date 'averaged' costs, for raw material, work in progress and finished stock. The 'averaged' costs are neither the original cost price nor current market value. The question of the use of the variances in the costs does not therefore arise. Yet it is undeniable that such costs cannot but result in a 'true and fair' profit or loss for the period.

Yours faithfully,

London, EC4. A. CURTIS, A.I.A.C.

Formation of Holding Company

SIR, – The directors of six small companies are considering forming a holding company. The combined nominal capital of the companies amounts to £40,000. Any comments from your readers on the advisability or otherwise of forming such a holding company would be appreciated.

Yours faithfully,

SECRETARY-ACCOUNTANT.

NOTES AND NOTICES

Personal

MESSRS THOMAS MAY & CO, Incorporated Accountants and Auditors, of Allen House, Newarke Street, Leicester, announce that Mr A. C. SHARP, A.S.A.A., who has been a member of the staff for fifteen years, was admitted as a partner on September 24th, 1951.

MESSRS KEMP, CHATTERIS & CO, Chartered Accountants, of 1 Throgmorton Street, London, EC2, announce that as from September 29th, 1951, their address will be St Swithin's House, 37 Walbrook, London, EC4. Telephone: Mansion House 4343.

MESSRS WALTER LOVATT & CO, of 7 Western Road, Hove, 2, Sussex, announce with regret the death, on September 13th, 1951, of their founder and senior partner, Mr WALTER LOVATT, F.A.C.C.A. The practice will be continued, under the same firm name, by the remaining partner, Mr GEORGE O. SUTTON, A.C.A.

MR DAVID LIPSON, F.A.C.C.A., announces that on September 29th, 1951, his Oxford Street office will be transferred to 20–21 Tooks Court, Cursitor Street, London, EC4. Telephone: Chancery 2471.

MESSRS LEIGH & SORENE, Chartered Accountants, of 146 Oxford Street, London, W1, announce that Mr H. LESLIE LAWSON, who has been associated with the firm for a number of years, has been admitted into partnership. The name of the firm is changed to LEIGH, SORENE & LAWSON.

Professional Notes

Mr Leslie Hall, A.S.A.A., has been appointed, as from September 13th last, finance director of the Nobel Division of Imperial Chemical Industries Ltd. Mr Hall joined I.C.I. in September 1929 as a member of the treasurer's department and shortly afterwards was appointed assistant to the chief accountant for the explosives group (later the Nobel division). He became chief accountant of the Nobel division in 1943.

Messrs Bain, Sons & Chatterton Ltd, Incorporated Insurance Brokers, of 1–3 Lombard Street, London, EC3, announce that the secretary, Mr T. A. Greenwood, A.S.A.A., and Mr H. I. Pound, A.C.A., have been appointed directors of the company with effect from October 1st, 1951.

Regular Army Commissions for Young Accountants

It has been announced by the War Office that, in addition to the opportunities for ex-officers to take up short service commissions in the Royal Army Pay Corps – details of which were published in our issue of May 19th last – there is now a scheme by which qualified accountants between the ages of 21 and 27 may gain regular commissions in the Corps.

An important feature of the new scheme is that a certain period of time (up to a maximum of two and a half years) spent in obtaining approved accountancy experience can count as reckonable army service for promotion. It will be realized that this is a valuable concession affecting army pay and seniority which materially benefits qualified accountants taking up a service career.

It is felt that the Army, with its present-day standards of life at home and overseas, has something very tangible to offer in providing the opportunity for a life of varied interest with security of pay and retired pay, which may be particularly attractive to those with previous service experience or now due for military service.

The immediate need in the Royal Army Pay Corps is for about twenty to twenty-five qualified accountants for whom there is employment in a capacity in which their professional qualifications will have considerable scope and value.

Applicants under the scheme must, of course, be medically fit for world-wide service. The normal length of oversea tours is at present three years and almost all R.A.P.C. stations abroad permit of families residing there.

Further details of the scheme and rates of pay appear in an official announcement elsewhere in this issue.

The Institute's Taxation and Research Committee

Mr W. W. Fea, B.A., A.C.A., has been elected chairman of the Taxation and Research Committee of The Institute of Chartered Accountants in England and Wales.

Mr Fea is chief accountant of Guest, Keen & Nettlefolds Ltd.

Committee on the Taxation Treatment of Provisions for Retirement

Mr R. A. Kinnes, a director of Courtaulds Ltd, has been appointed to the Committee on the Taxation Treatment of Provisions for Retirement, under the chairmanship of Mr J. Millard Tucker, K.C., in the place of Mr H. Weston Howard, who has resigned.

The Committee is now engaged upon the study of the written evidence submitted to it.

Manchester Chartered Accountants Students' Society

The annual general meeting of the Manchester Chartered Accountants Students' Society will be held on Monday, October 8th, at the Chartered Accountants' Hall, 60 Spring Gardens, Manchester.

The meeting will commence at 5.30 p.m. and is to be followed at 6 p.m. by the first lecture in the Society's 1951–52 lecture programme. This first address is by Mr C. F. Millard, B.A.(COM.), A.C.A., and his subject will be 'The company secretary's duties'.

A selection of other meetings to be held at the Chartered Accountants' Hall is as follows: *October 15th:* 'Incomplete records', by Mr T. R. Astley,

A.C.A.; *November 12th:* 'Moral issues confronting the accountant', by Mr R. H. E. Wilkinson, J.P., F.C.A.; *November 20th:* 'What is profit?' by Mr H. A. Briscoe, A.C.A.; *November 26th:* 'Relations with H.M. Inspectors of Taxes', by Mr N. G. Comber, H.M. Inspector of Taxes; and *December 11th:* A students' inter-team quiz.

All these meetings commence at 6 p.m., and light refreshments will be available from 5.30 p.m.

Birmingham and District Society of Chartered Accountants

The winter programme of meetings of the Birmingham and District Society of Chartered Accountants commences on October 25th with an address by Mr G. C. Stone, F.C.W.A., on 'Budgetary control'. Other meetings are as follows: *November 22nd:* A discussion with H.M. Inspectors of Taxes in the Midland area on questions of general interest, under the chairmanship of Mr M. J. Collier, Principal Inspector of Taxes. *January 17th:* An address on 'The general significance of pound sterling figures today', by Mr J. Clayton, A.C.A. *March 20th:* An address, 'The re-grouping of family fortunes', by Mr E. Ag Norton, M.A. All these meetings will be at the Queens Hotel, Birmingham, at 6 p.m. preceded by tea at 5.15 p.m.

The Society's annual dinner is to be held at the Grand Hotel, Birmingham, on February 22nd.

Officers of the Society for the current year are:

President: Mr D. J. Hadley, F.C.A.

Vice-President: Mr H. James Gittoes, J.P., F.C.A.

Hon. Secretary: Mr E. C. Turner, T.D., M.COM., F.C.A.

Hon. Treasurer: Mr W. E. Cox, F.C.A.

Hon. Librarian: Mr R. B. Leech, M.B.E., T.D., F.C.A.

Incorporated Accountants' Newcastle upon Tyne and District Society

An interesting and varied programme of twenty-three lectures for the 1951–52 session of the Society commenced in Newcastle yesterday with an address by Mr A. E. Langton, LL.B., F.C.A., F.S.A.A., on 'Apportionments'. In Newcastle there will be twelve lectures, and at Tees-side eleven – seven at Middlesbrough, three at Stockton, one at West Hartlepool. The latter series begins on Monday at Stockton, when Mr Langton will speak on 'Executorship law'.

Programmes until the end of the year are as follows:

At Newcastle: Oct. 10th: 'Bankruptcy', Mr C. L. Lawton, M.SC. (ECON.), Barrister-at-Law; *Nov. 1st:* 'Profits Tax', Mr J. S. Heaton, F.S.A.A.; *Nov. 23rd:* 'Group Accounts', Mr R. Glynne Williams, F.C.A., F.T.I.I.; *Nov. 29th:* 'Schedule D computations', Mr V. S. Hockley, B.COM., C.A.; *Dec. 18th:* 'Economics', Mr A. R. Ilersic, B.COM. *At Tees-side: Oct. 9th:* 'Bankruptcy', Mr C. L. Lawton, M.SC.(ECON.), Barrister-at-Law; *Oct. 31st:* 'Profits Tax', Mr J. S. Heaton, F.S.A.A.; *Nov. 21st:* 'Receivership', Mr T. D. R. Bensted, F.C.A., F.S.A.A.; *Nov. 30th:* 'Costing', Mr V. S. Hockley, B.COM., C.A.; *Dec. 17th:* 'Economics', Mr A. R. Ilersic, B.COM.

The Chartered Accountant Students' Society of London

The President's meeting will be held at 5.30 p.m. next Thursday, October 4th, to hear an address on 'The King's Peace' by Sir Theobald Mathew, K.B.E., M.C., Director of Public Prosecutions. The City Corporation has granted the use of Guildhall to the Society for this meeting and Sir Denys Lowson, Lord Mayor of London, has promised to be present. The chair will be taken by Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A. President of the Students' Society.

Southend-on-Sea Chartered Accountants' Group

About fifty members, students, and friends of the Southend-on-Sea Chartered Accountants' Group visited the factory of the Ford Motor Co Ltd at Dagenham on September 19th. After an interesting tour of all parts of the works, the Group was welcomed to tea in the Ford sports pavilion by Mr L. W. Smith, chief accountant to the company.

Constructional Steelwork Team for U.S.A.

A team of fourteen representatives of British constructional steelwork, bridge-building and mechanical handling interests, led by Lieut.-Col. H. B. Denton, O.B.E., chairman of Joseph Parks & Son Ltd, Northwich, and with Mr J. R. Mackay, C.A., a partner in Messrs Peat, Marwick, Mitchell & Co, as secretary, sailed in the *Queen Elizabeth* for the United States on September 21st.

The visit has been arranged under the auspices of the Anglo-American Council on Productivity, with E.C.A., technical aid, and in common with previous productivity teams, the team members represent the various levels of the industry. The enterprise has been sponsored by the trade bodies concerned.

Recent Publications

FILING AND INDEXING, by O. W. Standingford. 36 pp. 6×9½. 5s net. Office Management Association Ltd, London.

BOOK-KEEPING AND ACCOUNTS, by Dennis L. Dougan, F.S.A.A. v+530 pp. 10×7½. 30s net. Sweet & Maxwell Ltd, London.

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The Institute of Cost and Works Accountants

RETIREMENT OF MISS M. R. GLOVER

The meeting of the Council of the Institute of Cost and Works Accountants on Friday, September 21st, was the occasion of an unusual and pleasing little ceremony, when the President, Mr A. W. Muse, F.C.W.A., made a presentation to Miss M. R. Glover on her retirement after twenty-two years in the service of the Institute.

Miss Glover, who joined the staff of the Institute as personal assistant to Mr Stanley J. D. Berger, M.C., F.C.I.S., in 1929, has been associated with practically every aspect of the Institute's work and has given invaluable assistance in the great amount of organizational detail resulting from its expansion. For some years she has held the positions of Education and Examinations Officer and Journal and Publications Officer.

Respected and admired by her colleagues on the headquarters staff, Miss Glover also carries with her the good wishes of the many members and students of the Institute whom she has so ably and readily advised and assisted.

The Council's gift to Miss Glover was a silver tea service, while her colleagues presented her with an inscribed table lamp.

THE DIRECTOR'S VISIT TO SOUTH AFRICA

Mr Stanley J. D. Berger, M.C., F.C.I.S., director of the Institute of Cost and Works Accountants, has left for a tour of South Africa where he will visit the South African branch and its sub-branches and students' societies. Mr Berger hopes to meet as many as possible of the Institute's members and registered students in the Union, and to contact government, educational, industrial and other professional organizations. He will be away for about three months.

Bristol Rovers Football Club Limited

INSPECTOR APPOINTED TO INVESTIGATE MEMBERSHIP

The Board of Trade announce that, on an application made to them under Section 172 (3) of the Companies Act, 1948, by members of the Bristol Rovers Football Club Ltd, holding not less than 1/10th of the shares issued, they have appointed His Honour Ernest H. C. Wethered, O.B.E., to act as Inspector to investigate the membership of the company for the purpose of determining the true persons who are, or have been financially interested in, or able to control, the company, with particular reference to the shares specified in the application, and to report thereon in such manner as the Board may direct.

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF SEPTEMBER 30th, 1876

Extract from 'Notes in Passing'

The London Banker

When the doors of the bank are closed he drives off to his mansion at Prince's Gate or Kensington Palace Gardens, and relapses into the private gentleman. As a rule, he has a highly-cultivated taste in the selection of his furniture, the decorations of his rooms, and the choice of his paintings. Chaste in his ornaments, and with no sign of gaudiness about his fittings, he is as far from the parvenu as from the poles. He moves amongst the 'upper ten', by whom he is often courted, as his entertainments are princely and so much in accordance with their tastes. His park in the country, with its grand old house, has descended to him, perhaps through generations, and he is as much a country squire as a London banker. He frequently has sporting tastes, and follows the hounds at least once a week, sitting his horse as firmly and taking the leaps as gallantly as any squire in the land. Hats are doffed to him as he passes, and the rustics regard him with natural reverence as a superior being.

Altogether, in whatever light viewed, one can find something to admire and like in the habits and personal characteristics of the London banker.

Our Contemporaries

THE THREE BANKS. (September.) 'The Lancashire Cotton Trade from the Great Inventions to the Great Disasters', by Godfrey Armitage.

Other Publications Received

JOURNAL OF THE ROYAL SOCIETY OF ARTS. (September.)
THE CERTIFIED BOOK-KEEPER. (Cape Town.) (September.)
SECRETARIES' CHRONICLE. (September.)
REVISION OG REGNSKABSVAESEN. (Copenhagen.) (August.)

ANNOTATED TAX CASES

Edited by ROY E. BORNEMAN *of Gray's Inn, Barrister-at-Law*

Published at frequent intervals. Reports of Income Tax, Sur-Tax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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The Accountant

ESTABLISHED 1874

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REVENUE AND EXPENDITURE

LAST week the Treasury released figures of revenue and expenditure for the first half of the current fiscal year which showed that in several instances the Budget estimates for 1951–52 are likely to be rather wide of the mark. The profits tax, which seems at the moment to have a somewhat uncertain future, showed a marked buoyancy. The estimate for the year envisaged an increase over the previous year of nearly £45 million, but the increase actually realized in the first six months, over the corresponding period last year, is already over £24 million. Even income-tax, which of course is largely collected in the second half of the year, showed an increase over the corresponding period of £66 million, more than half of which related to the three months ended September 30th last.

No excess profits tax was collected in the six months covered, although the six months to September 1950 produced nearly £8 million. The final winding-up of this tax still proceeds slowly, however, despite the fact that it has not been in force for the past 4½ years; the net post-war refunds, after deduction of income-tax, amounted to £3,263,587 as against £5,840,939 in the corresponding period in the previous year.

The most remarkable increase for a direct tax is in stamp duties which produced nearly £7 million more in the six months ended September 30th, 1951, than in the six months ended September 30th, 1950. Over £31 million has already been collected out of the estimate of £55 million, no doubt an accurate pointer to the general rise in prices. Special contribution has failed to decrease as rapidly as was estimated, £1,640,000 being collected in the six months under review, which is £140,000 more than the estimate for the full year. Death duties too were above estimate.

The figures for indirect taxes were even more remarkable. Customs revenue for the six months was nearly £488 million, an increase of £49½ million, against an estimated increase of a little over £25 million. This hardly bears out the forecasts of a general tightening of belts. Excise figures, which cover purchase-tax, totalled more than £377 million for the six months, showing an increase over the corresponding period of last year of £28½ million, despite the estimate of a decline for the full year of over £4 million. Here is an indication that the export drive is not going as well as was expected, although of course the general rise in the cost of manufacture is automatically reflected in the purchase tax. Receipts from the sale of war stores, and surpluses from government trading were both well above estimate.

In contrast with the buoyancy of taxation, expenditure on the supply services was lower than expected. Of the total estimate of nearly £3,426 million for the year 1951–52, only £1,538 million had been spent in the first six months.

SHARE PREMIUM ACCOUNTS

SHARES ALLOTTED OTHER THAN FOR CASH

by PETER WHITWORTH, Barrister-at-Law

THE former practice of paying dividends out of premiums received on shares, which received judicial sanction in *Drown v. Gaumont-British Picture Corporation Ltd* ([1937] Ch. 402), was regarded by the Cohen Committee[1] as undesirable. The Committee's recommendations resulted in Section 56 of the Companies Act, 1948, which requires the transfer of all premiums to a share premium account, and in paragraph 2 (*c*) of the Eighth Schedule which requires the amount of this account to be shown in the balance sheet. The provisions relating to reduction of capital apply to this account as if it were paid-up share capital, except that it can be applied in paying up bonus shares, paying premiums in redemption of redeemable preference shares or debentures, or writing off preliminary expenses or the expenses (including commission and discount) of an issue of shares or debentures. Premiums received before the commencement of the Act, to the extent that they form an identifiable part of the company's reserves, are to be similarly dealt with. The substantial object of the section is thus to prevent a company from paying away admitted premiums in dividends and, as ancillary thereto, to require such premiums to be separately stated in the accounts.

Shares Issued Other than for Cash

Doubts have been expressed as to how far the section applies where shares have been issued for a consideration other than cash. The section clearly contemplates the possibility of a premium in such a case for it applies to all shares issued 'at a premium whether for cash or otherwise'. Once the existence of a premium is established, it must be precisely quantified. Of course no question could normally arise when the cash value of the assets accepted by the company was stated in the agreement. The excess, if any, of such cash valuation over the nominal value of the shares issued as fully paid would prove the existence of a premium and would at the same time quantify it, unless it could be shown that the consideration was illusory or the contract a sham, as to which see below.

Where the stated value of the assets handed over to the company equals or exceeds the nominal value of the shares, but the contract provides also that the vendor is to confer further advantages on the company as additional consideration for those shares, then these further advantages logically represent a premium upon which it will be necessary for the directors to put some value, and to credit the share premium account accordingly.

A contract for the allotment of shares for a consideration other than cash may contain on its face no indication of the value of the consideration other than the sum expressed to be paid up on the shares so allotted. In those circumstances, can the question of a share premium arise, and if so, to what extent is the auditor put upon inquiry by extraneous matters?

Where the allotment took place before July 1st, 1948, and there was no credit to reserve in respect of a premium, then it would seem that the question of a share premium account in respect of that allotment could not now arise in any event, for it is difficult to see how the reserves could include a premium, identifiable or otherwise.

Arguments for the Existence of a Premium

In relation to an allotment made after June 30th, 1948, the argument that there is a premium may rest on one of two grounds. Where the shares allotted rank *pari passu* with a larger number of existing issued shares whose market value is well above par, it might be argued that the consideration must necessarily be worth more than the nominal amount of the shares. On the other hand, the shares allotted may represent substantially the whole of the issued capital of the company so that their market value, when issued, is largely determined by the value of the consideration. Extraneous evidence of the market value of the consideration could then be used to show that it was above the nominal value of the shares and that there was therefore a premium. Both these arguments should be regarded with caution. In the writer's opinion it was not the intention of the framers of Section 56 that every contract for the issue of shares for a consideration other than cash should be scrutinized to see whether, by

[1] Report of the Committee on Company Law Amendment, Cmd. 6659. H.M.S.O.

reference to facts which may not even have been present in the minds of the contractors, some element of premium can be inferred so as to bring the section into operation. Nor do the terms of the section impose such an obligation.

Case Law on the Issue of Shares at a Discount

In this connexion it is well to bear in mind the line of cases dealing with the alleged issue of shares at a discount or for no consideration. In those cases the question was not whether the company had kept proper accounts, but the more serious one of whether the shareholders were liable for calls on the shares. Even so, it is well established that where shares are issued for a consideration other than cash, which is not expressly stated in the contract as being less than the nominal value of the shares, the Court will not inquire into the adequacy of that consideration unless it is illusory or the contract is a sham. (*Re Wragg Ltd* ([1897] 1 Ch. 796); *Re Innes & Co Ltd* ([1903] 2 Ch. 254).)

To quote Lord Greene in *Craddock v. Zevo Finance Co Ltd* ([1944] 1 All E.R. 566), at page 570:

> 'It is true as a general proposition that, where a company acquires property for fully-paid shares of its own, the price paid by the company is, prima facie, the nominal value of the shares. It is for those who assert the contrary to establish it.'

Shares of High Market Value

Taking first the issue of shares *pari passu* with others having a stock exchange value above par, to quote Lord Greene again (ibid. page 569):

> 'Published market quotations, which often relate to quite small and isolated transactions, are notoriously no guide to the value of investments of this character. . . .'

These quotations are the result, not of an expert valuation, but of the interplay of all kinds of influences acting upon the minds of all kinds of investors, rational and not so rational. Moreover, it is almost certain that the issue of further shares of the same class will affect the price of the existing shares, usually, although not necessarily, downwards.

If stock exchange quotations, although conventionally adopted for many purposes including estate duty, are not a reliable guide, then how much less reliable are other indications such as the break-up value of the company's assets or the price at which similar shares are offered to the public. In the case of a public issue, the price fixed is little more than a guess of what the sufficiently large section of the public can be induced to pay and is in any case higher than the price which the vendor himself receives.

Even if it were admitted on all sides that the shares allotted automatically assumed a market value above par, it does not follow that this value is received for them. There is no obligation on a company to issue its shares at a premium because they are saleable at a premium in the market (*Hilder v. Dexter* ([1902] A.C. 474), Lord Davey at page 480). Indeed it is difficult to see how there could ever be an assumption that a premium was being taken without any independent evidence of the value of the consideration itself.

Restrictive Covenants

To take a near-topical example, if a motor manufacturing company issues shares to an employee in return for a restrictive covenant, it is open to the parties to fix the value of the covenant either at the nominal value of the shares or at their higher market value. In either case the sum so adopted must surely govern the question of premium or no premium for the purposes of the company's accounts. Of course the Inland Revenue may assess the employee on what is subsequently shown to be the market value of the shares in his hands, but that is another matter.

Profits Applied in Paying Up Bonus Shares

Prosperous companies sometimes issue bonus shares to their members, ranking *pari passu* with existing shares which stand well above their par value. Nevertheless the almost universal procedure is to pay for the shares by applying accumulated profits in an amount equal to the nominal value of the shares. It would be idle to argue that the company had received any premium as a result of such an operation. On the other hand it seems to be equally open to a company to apply accumulated profits, in an amount exceeding the nominal value of the shares, in paying them up at a premium, even though issued shares of the same class may be standing below par in the market. Such premium would then be subject to Section 56. In short, the company is master of the situation; it can convert its profits either into capital in the ordinary sense or into the special kind of capital that goes into the share premium account. Incidentally, either course is equally unfortunate for tenants for life under trusts, for profits so applied go to the remaindermen.

Consideration for Shares Exceeding their Nominal Value

Where there is independent evidence of the value of the consideration given for the shares the argument in favour of a premium, although on stronger ground, is still not conclusive. If, as is established by the many cases on the issue of shares at a discount, it is open to any company to make a bad bargain by issuing shares for something whose value proves to be less than the nominal value of the shares, then *a fortiori* it may make a good bargain, by taking assets which, although shown in the contract to be equal in value to the nominal amount of the shares issued for them, eventually prove to be worth much more. Just as there is no discount in the first case, so there is no premium in the second.

The Relevance of *ad valorem* Stamp Duty

It may be that the contract for the issue of shares, although containing no indication in its terms of the value of the consideration (beyond the nominal amount of the shares issued as fully paid), bears *ad valorem* stamps from which the value for stamp duty purposes may easily be calculated. The question then arises as to the extent to which the auditor is affected by this stamp duty valuation in checking the accuracy of the company's accounts. As a watch-dog he should, of course, be on the lookout for shams, but unless the whole transaction can be thus impeached, the mere fact that stamp duty is paid on more than the nominal value of the shares does not, in the writer's opinion, warrant the inference that there is a share premium within the meaning of Section 56.

Section 55 of the Stamp Act, 1891, provides that where the consideration for a conveyance on sale consists of any stock or marketable security, the duty is to be based on the value of the stock or security. This may be above par, but as observed above, the company is not bound to issue its shares at a premium, so that the stamp duty may well be based on a figure which has no validity other than for stamp duty.

In *Re Wragg Ltd* ([1897] 1 Ch. 796), a vending agreement was impeached because, *inter alia*, an inflated figure has been placed upon stock-in-trade so as to bring the global value of the assets up to the figure agreed to be paid for them. The Court of Appeal observed that this had obviously been done to reduce the stamp duty on goodwill and that it in no way altered the real agreement between the vendors and the company. In *John Foster & Sons v. C.I.R.* ([1894] 1 Q.B. 516), a partnership conveyed its assets to a company in return for shares and debentures to a nominal value of £360,000. The value of these assets in the partnership books was some £140,000. The company contested the levying of any *ad valorem* stamp duty on the contract but the Inland Revenue successfully contended that duty was payable, not, however, on the expressed consideration of £360,000, but on the book value of £140,000, although there was no suggestion that shares had been issued at a discount.

By way of contrast, in *Carlyon Estates Ltd v. C.I.R.* ([1937] 16 A.T.C. 339) the vendor conveyed to the company for £100 cash, assets which were independently valued at £63,391. At the same time, but in a separate document, the company agreed to issue to the vendor the whole of its nominal share capital, to pay his debts and an additional £100 in cash, and to appoint him as controlling director for such period as he should wish. The Inland Revenue levied stamp duty on the full value of the assets plus the vendors' debts. The Court held that since the conveyance admittedly did not show the true consideration the Inland Revenue was bound to go outside the deed to find the true consideration and it upheld the assessment. Clearly the consideration of £100 stated in the conveyance was entirely illusory and did not represent the real bargain between the parties. Where that is the case the auditor is equally entitled to go outside the contract and find the true consideration.

Conclusion

It is to be observed that for our present purposes there is no real distinction between allotments for cash, allotments for other assets whose value is expressed in the contract, and allotments for assets whose value is not so expressed. In the third case the value is simply taken to be the amount expressed as being paid up on the shares allotted. In any case the transaction on its expressed terms can be impeached only where the consideration shown is so grossly different from the clear market value as to be illusory or to make the contract a sham, or where it shows that shares are being issued at a discount. Where the consideration is not cash, the auditor is in general no more concerned to make his own independent valuation than he is required to make a personal valuation of stock. It is not easy to say in general terms what facts are sufficient to put him upon inquiry as to the genuineness of the figures in the contract to allot shares, but in practice difficulties of this kind should rarely arise.

AUDITING

by W. H. LAWSON, C.B.E., B.A., F.C.A.

INTRODUCTION

SINCE the introduction of the Companies Act, 1948, accountants have found it necessary to devote much of their time and thought to the consideration of the form and contents of published accounts and this has been one of the main subjects of discussion at all our recent summer courses. On this occasion the committee has decided that the time has come when we should turn away temporarily from the problems of presentation and should direct our thoughts towards the important subject of auditing as such.

Most of the practising members here and many of the non-practising members will have had great experience of auditing and some may be devoting a large part of their energies to this work since auditing still forms the backbone of most professional accountancy practices.

In addressing such an expert audience my approach will be to introduce the subject, raise points of interest and provide a kind of agenda for the discussion groups where I hope that the interchange of ideas arising from varied experiences will be valuable. In order to assist in stimulating discussion, I shall suggest, in the course of this paper, a number of specific points for discussion.

Any paper of reasonable length which sets out to cover such a wide field as auditing must appear somewhat scrappy and disjointed and in an attempt to give the paper some form and pattern, I have divided it into five parts, namely:

- I Matters arising at the outset of the audit.
- II Matters arising during the course of the audit.
- III The audit report.
- IV Questions affecting the independence of the auditor.
- V The relationship of auditor and client.

I have not included any section dealing with matters arising after completion of the audit because these, in so far as they relate to the arrangement and filing of papers, are dealt with in Mr Duncan's[1] paper.

In selecting my subjects I have endeavoured to avoid those which are adequately treated in text-books and other published documents and, in particular, I have refrained from any discussion of matters arising out of mechanized accounting because that has been the subject of a full and excellent report entitled *Mechanized Accounting and the Auditor* by a sub-committee of the Taxation and Research Committee in 1949.

By way of definition I should make it clear that, except where otherwise stated, the word 'audit' is used in the sense of an audit carried out by an independent practising accountant.

An address delivered on September 10th, 1951, at the summer course of The Institute of Chartered Accountants, held at Christ Church, Oxford.

[1] 'An accountant's working papers.' We hope to reproduce Mr Duncan's address in an early issue.

I. MATTERS ARISING AT THE OUTSET OF THE AUDIT

Purpose of the Audit

It is, I suppose, true to say that all audits, whether of public or private companies or of unincorporated businesses, have this much in common that they provide an independent examination of the accounts with a view to ensuring that the directors or partners are not themselves misled and do not mislead others as to the financial position of the undertaking and the profit or loss derived from its operations.

The means of achieving this main objective vary greatly; for instance, the audit programme for a large modern industrial organization bears little resemblance to that for a small private trader. This divergence in practice is due primarily to three causes, namely:

(a) the need to comply with different statutory requirements affecting the accounts or audit;
(b) the varied purposes for which the accounts of sole traders and partnerships are required; and
(c) the varying degree of reliance which is placed upon the audit as a means of preventing or detecting error or fraud.

(a) Audits under special statutes

I do not propose to deal in this paper with questions affecting audits under special statutes such as the Friendly Societies Acts, Public Authorities Acts, Insurance Companies Acts, and Solicitors' Accounts Rules. My comments are applicable mainly, though not exclusively, to the audit of companies under the Companies Act, 1948.

(b) Accounts of sole traders and partnerships

Before turning to general questions it may be as well to consider certain special circumstances which affect the preparation or audit of the accounts of sole traders and partnerships. In such cases the nature and extent of the work undertaken depends upon the instructions given by the owners of the business. For example, one client may require a detailed cash check, whereas another may be satisfied with his own control of the cash but requires some detailed examination of the bought or sales ledgers. Another client may wish his accounts to be prepared by a chartered accountant mainly for the purpose of submission to the Inland Revenue, his bankers or other interested persons. As the scope of the work is dependent upon the instructions given and is not governed by statutory requirements, the accountant is in a position to limit his responsibility by suitable wording of any report

which he may give upon the completion of his work. In practice, however, it is sometimes found that this definition is lacking, especially where the accountant makes no report on the accounts but merely signs a certificate to the effect that the accounts have been prepared from the books and vouchers and are in accordance therewith.

It is suggested that, in most cases, where there has not been a full audit, it is desirable that the scope and extent of the work undertaken should be set out in a covering letter attached to the accounts which should be signed as subject to the terms of the letter.

Point for discussion

What are the views of the course as regards reports made on the accounts of sole traders and partnerships?

(c) Reliance upon the system of internal check

In the largest concerns there is invariably an elaborate system of internal check amounting, in some cases, to a full internal audit. The auditor can then rely upon a limited test of detailed transactions with a view to satisfying himself as to the effectiveness of the control exercised within the business itself.

At the other end of the scale a very small business may be unable to organize its staff in such a way as to provide an adequate system of control and may depend for protection against error and fraud almost entirely upon the audit. Most undertakings, however, fall between these two extremes and, while providing a reasonable measure of internal check, nevertheless rely, to a substantial extent, upon the additional protection of the audit. In such cases the protection is afforded by a combination of internal control with the audit, calling for the closest collaboration between the client and the auditor.

At the outset of an audit, other than the very smallest, it is necessary for the auditor to make himself fully familiar with the organization of the business and the system of internal control in operation. For this purpose it is helpful if there is in existence a memorandum dealing fully with such matters as the division of responsibility between the officers of the company, their power to commit the company, their authority for authorizing expenditure, the book-keeping system and the system of internal check. The preparation of such a statement or office manual is often a difficult matter requiring both a detailed knowledge of the particular business and a general experience of business and office organization. It should, however, be of considerable value to the client as well as the auditor. It is preferable that the statement should be prepared by or under the supervision of the chief accountant of the company. Where no statement has been prepared by the company it is necessary for the auditor to prepare the statement himself and, for this purpose, some practising members find it useful to have a standard form of questionnaire setting out the various points which must be borne in mind in this inquiry. It must be recognized that this examination and recording of the system in force can be a lengthy and difficult task but it would seem to be an essential preliminary to the preparation of a satisfactory audit programme. Moreover, the record must be kept up to date by annual review and amendment to reflect changes in the system.

If the system is found to be wholly satisfactory the auditor can proceed to draw up a programme of work depending upon that system and exercising his judgment as to the extent of any test checks to be made.

If the system is deficient in any respect he should, I suggest, draw the management's attention to the matter and, pending the correction of the weakness, should carry out such additional work as may be necessary to enable him to satisfy himself that the accounts are correct. The management, having had their attention drawn to the weakness in the system, are responsible for making the necessary adjustments.

It must be borne in mind that no system of control, however complete, can provide against all possible contingencies of fraud or error. Risks vary in different businesses and the protection afforded must take into account the relative cost of providing it compared with the risks involved. It is here that there may be the greatest risk of misunderstanding between the management and the auditor.

Points for discussion

(1) *Is it thought that, at the outset of the audit, a statement should be prepared outlining the system of internal control in operation? By whom should this statement be prepared and what should it contain?*

(2) *What method should be employed in providing for an exchange of view with regard to any weaknesses in the system of internal control? Should the auditor report these matters to the company in writing?*

(3) *What is the auditor to do if the management feel that a fully adequate system of internal control is too expensive and they would prefer to run a moderate risk of error or fraud rather than incur the cost of a further internal control or audit?*

Extent of Test Checks

The auditor, having reviewed the system of internal control, must decide upon the direction and extent of the test checks which he will make in order to satisfy himself that the system is operating effectively. This, of necessity, must be a matter of individual judgment and there is evidence that the views of auditors differ widely on this subject. It may be possible, however, to attempt a definition of certain guiding principles which should assist the auditor in exercising his judgment as to work to be carried out in the different sections of the accounts. The following are suggested:

(1) The nature of the business and the extent to which cash, securities and readily saleable goods are handled.

(2) The assessment of the capabilities and integrity of the personnel employed.

(3) The numbers of errors found on previous occasions.
(4) The relative importance of individual items and their bearing upon the 'true and fair view'.
(5) Those matters which are most difficult to check should be most thoroughly tested.

A definition of guiding principles cannot, however, entirely dispose of this problem. In a large business the cost of checking even a small proportion of the entries might be prohibitive and the cost of the audit will be considerably affected by a decision to check, say, 5 per cent of the entries instead of 2½ per cent.

I suggest that where this is the case the auditor should allocate a limited period of time to the particular test. If this shows that the book-keeping is accurate and reliable he should move on to some other section. If, however, errors are found or suspected as a result of this limited examination, he should consider whether that section could be checked by the company's own staff before himself undertaking a large amount of detailed checking.

An alternative approach to this problem of test checking is to select a certain number of accounts for complete checking through all stages of the accounts. For example, a creditor's account might be checked in complete detail, the credits for goods received being compared with original invoices and the invoices compared with the goods received book and the original order. The debit side of the account would be checked with the cash book, the receipts for payments to the creditor, paid cheques and credit notes; the whole account being also reconciled with the creditor's statement. This complete check of a certain number of accounts may be a useful way of testing the system of internal control, but should normally be combined with a thorough checking of part of the cash book, purchase journal and other books of prime entry.

It is often useful that such detailed work as is necessary should be carried out by way of an interim audit during the course of the year, as the system of internal control can be more readily appraised and tested at a time when the company's officials and the auditor are less preoccupied with problems arising out of the preparation and audit of the final accounts for presentation to the shareholders.

Point for discussion

Are the tests set out in items 1 to 5 above accepted as a guide for determining the amount of detailed test checking?

Fraud

In judging the effectiveness of any system of internal control, it is useful to have in mind frauds which have occurred in the past. Most of us come across such cases only infrequently and our direct experience is, therefore, limited. A large number of frauds take place each year but probably only a small proportion lead to prosecutions and even fewer are reported fully in the newspapers. It may be felt, therefore, that our knowledge of the methods adopted by wrongdoers in evading the vigilance of auditors is not complete and it might be worth while considering whether there is any way in which this could be extended. It might be that, after a reasonable lapse of time and provided no names were given, clients would agree to the publication or circularization to practising accountants of particulars of frauds which have occurred. Such a record would undoubtedly be of value to auditors in considering systems of internal check and programmes of audit work, but there are practical difficulties which would require consideration.

Point for discussion

Is it desirable to pool information about frauds that have taken place and, if so, is there any practical way of doing this?

The Balance Sheet Audit

(a) Development

In recent years there has been an increasing tendency towards what is loosely known as 'the balance sheet audit'. The expression is, of course, used to cover more than the mere verification of assets and liabilities which has always been part of the normal auditing procedure. The essential distinction between the detailed audit and the balance sheet audit is one of approach. The detailed audit starts with the books of prime entry and ends with the balance sheet, whereas the balance sheet audit starts with the verification of assets and liabilities and probes back to original entries and vouchers where the auditor considers that to be necessary. The balance sheet audit is in fact such a searching examination of the items in the balance sheet and profit and loss account that, given a satisfactory measure of internal control, the auditor can, with limited test checking, be reasonably certain that the day-to-day transactions have been properly recorded.

The following factors may have contributed to the development of the balance sheet audit:

(a) The growth of large-scale industrial undertakings with the consequent evolution and improvement of systems of internal check.
(b) The growing recognition that thoughtful examination by qualified accountants is more valuable than detailed checks by relatively unskilled men.
(c) The necessity of employing highly skilled men in view of the complexities of modern company law and taxation legislation.
(d) The greatly increased cost of junior staff to undertake detailed audits.
(e) The growth of mechanized accounting.

(b) Scope

In practice, the audit procedure must be influenced, to a considerable extent, by the methods of accounting employed by the company and the time factor often has to be taken into account. When commencing an audit it is often found that no balance sheet or even trial balance is ready. As soon as the balance sheet

has been prepared, the directors will be clamouring for its finalization.

Assuming, however, that the auditor is presented with a full set of accounts in draft form, it may be useful to consider the subjects which might be taken as a basis for the audit programme for a balance sheet audit. If the system of internal check has been examined and tested by way of an interim audit and a reasonable amount of detailed work has been done on that occasion in connexion with such items as cash vouchers and wages, a broad outline for the programme of the final audit might be somewhat as follows:

(1) General appraisal of the position and of the changes during the year:

This will probably involve, at the outset, a general discussion with the chief accountant or other officials of the business, following a preliminary survey of the draft accounts and a broad comparison of the figures with those of the previous year. Such matters as the following would come under consideration:

(*a*) The liquidity of the business and the increase or decrease in fixed assets. How have funds received from new capital, increased borrowings and profits been utilized?

(*b*) The ratio of stocks to turnover. Is there any exceptional accumulation of stocks?

(*c*) The ratio of outstanding debtors to turnover. Are customers taking longer credit?

(*d*) The likely capital requirements to meet the replacement cost of fixed assets. This is particularly important in the case of small businesses which have not ready access to the capital market.

(*e*) The extent of any increase or decrease in the profits for the year and the reasons for it. For example, has the ratio of gross profit to turnover altered materially?

(*f*) Consideration of any large exceptional transactions of a special or non-recurring nature and of special factors which may have affected the results for the year.

(*g*) A comparison of the taxation charge in relation to the profits of the year and an explanation of the difference between the assessable profit and the profit shown in the draft accounts.

(*h*) A comparison of the insured values for stocks and fixed assets with book values and an inquiry into the adequacy of special insurance policies such as loss of profits policies.

(*i*) Scrutiny of the minute book for any matters affecting the audit.

(2) Consideration of detailed schedules of the items in the balance sheet, breaking down the various main headings into their constituent parts.

(3) Detailed comparison of such figures with those of the previous year, requiring explanations of major increases and decreases.

(4) Verification of the assets and liabilities.

(5) Consideration of the valuation of the current assets and liabilities.

(6) Comparison of the profit and loss account with the previous year's figures, requiring explanations of large variations, scrutiny of certain ledger accounts and vouching of exceptional items.

(7) Consideration of future commitments;
capital commitments;
orders on hand;
purchase commitments;
contingent liabilities.

(8) Detailed scrutiny of transactions:
Decision as to which parts of the company's activities require further detailed or test checking.

Point for discussion

How far is it practicable to base audit programmes upon the approach from the balance sheet downwards instead of upwards through the books of prime entry?

II. MATTERS ARISING DURING THE COURSE OF THE AUDIT

Circularization of Debtors

In America it is common practice for the auditor to circularize debtors for confirmation of their balances by either the 'positive' or 'negative' method. Under the 'positive' method the debtor is requested to sign a statement of his balance and return it to the auditor, whereas under the 'negative' method he is advised of his balance and asked to communicate with the auditor if it is incorrect. Generally the 'positive' method is the more satisfactory but it is hardly practicable to adopt this in such businesses as retail stores where there are a vast number of individual accounts. In this country it is not the general practice to circularize debtors, though this is done to a limited extent.

It might be useful to consider how far the circularization of debtors can facilitate the audit and eliminate detailed work. It must be borne in mind that the 'positive' method cannot be fully effective unless a very high proportion of replies is received. For this reason the system is more effective when applied to businesses where there are relatively small numbers of accounts with large balances such as the accounts of stockbrokers and merchant bankers.

In the case of industrial companies it may be useful to obtain confirmation of some of the larger accounts, particularly where these arise from loans and other financial transactions. Particular attention should be paid to complicated accounts where payments cannot easily be identified with invoices.

Other accounts which may usefully be verified in this way are those of overseas agents who have authority to collect money for account of the company. It is possible that the management may have given instructions to such agents to utilize funds received by them for account of the company in p

ment of sums due by the company in the country concerned and, unless these instructions have been reported to the book-keeper and accounts regularly obtained from the agents, they may escape the attention of the auditor.

In all cases where it is decided to circularize the debtors, the auditor should post the communications himself and arrange for replies to be addressed to him. Reminders should be sent to any debtors who do not reply and, if these do not meet with any response, the accounts concerned should be carefully scrutinized and checked in detail.

Point for discussion

Is it desirable to circularize debtors? If so, in what circumstances?

Illegal Transactions

It is an unfortunate consequence of modern legislation, with its multiplicity of regulations concerning minor as well as major matters, that the auditor is sometimes faced with the situation in which his client has wilfully, or through ignorance, committed some breach of the law. These cases often present considerable difficulty. It is no part of the auditor's duty to act as common informer nor is he necessarily obliged to draw specific attention to a breach of regulations in such a way as to cause damage to the business.

At the same time, if the amount involved is large and the possible penalty heavy, there may be a contingent liability which cannot be ignored. If the offence is flagrant and continuous and the client will not desist, the auditor may have to consider whether he should continue to act.

Points for discussion

(1) *What should guide the auditor in exercising his judgment in the circumstances outlined above?*

(2) *Does a contingent liability within the meaning of the Companies Act arise upon a breach of law or Defence Regulation, or does that contingency only arise in the event of a prosecution having been started?*

Liability for Stamp Duty

The auditor sometimes finds that stamp duty has not been paid on documents of title and the question arises as to whether this involves any contingent liability. An unstamped document has no value in a court of law as evidence of title and if a document is stamped at a later date than that required by the Stamp Act, it may involve a heavy penalty.

Point for discussion

Has the auditor any special duty in relation to unstamped documents of title?

Evidence of Payment

Difficulties are sometimes experienced by the auditor as a result of modern practices introduced with a view to saving trouble and expense to the client. For example, a company recently invited all its customers to refrain from demanding receipts for payments made to the company by cheque; they were asked to accept the endorsement on the cheque as evidence of payment. This question involved legal considerations and as inquiries were received from a number of members the Council obtained the opinion of a leading firm of solicitors as follows:

(i) A person receiving a cheque in settlement of a debt due to him is under no legal obligation to issue a formal receipt unless requested so to do by the payer. There is no rule of law which says that a receipt is the only method of proving payment, but if a receipt is produced in evidence it must be duly stamped if the amount is not less than £2.

(ii) The only reason why an endorsed cheque is less good evidence of payment than a receipt is that where one has a receipt written on an account there is no possible difficulty in identifying the payment with the particular debt. An endorsed cheque is undoubtedly of considerable value as evidence of payment, but it is not conclusive evidence because it must be proved that the cheque refers to the particular transaction in connexion with which payment is disputed.

(iii) If the drawer of a cheque holds a copy (supplied by the payee) of the account in respect of which the cheque was drawn, this would be of assistance to the payer in proving that the account has been paid, but it would not necessarily be conclusive. If the payer frequently makes payment to the payee for invoices of the same amount, the only link between a particular invoice and a particular cheque would be the date and this would not necessarily be conclusive evidence.

Another difficulty of a somewhat similar nature arises from the 'traders' credit' system. Under this system traders send to their bankers each month a list showing the names of the suppliers and their bankers, together with the amount which is to be transferred to each of them. The bank undertakes to make the necessary transfers and debits the trader's account with the total sum. From the auditor's point of view this system presents some difficulty in that, as a general rule, suppliers do not send receipted statements for the sums transferred. It is, therefore, not easy to identify the payments with the relative invoices.

The practices referred to above are adopted for sound commercial reasons and with a view to saving expense. It is suggested, therefore, that the auditor must adapt himself to these new conditions where they exist, but the fact must be recognized that they may add to his difficulties.

Point for discussion

Have the course any suggestions to make for overcoming the difficulties referred to above regarding evidence of payment?

Title to Property

Difficulties sometimes arise in connexion with the verification of the ownership of property. Where there are a large number of title deeds it is a formidable task for the auditor to examine these each year. It is, however, often possible to arrange with the client that, after examination, the title deeds shall be retained in packages sealed by the auditor so that only those which have been in use during the year need be re-examined on the occasion of the next audit.

The question also arises as to how far the auditor is required to satisfy himself that the title is good. The auditor is not required to act as an expert on title and cannot be expected to do more than verify that the deeds cover the property owned by the company. It is a matter for consideration whether, upon the commencement of a new audit, the company should be asked to arrange for its solicitor to give a certificate to the auditor to the effect that the titles are in order. If such a certificate had once been received it would seem to be unnecessary to obtain any further certificates from the solicitor at later audits, except as regards the title to new property acquired during the year.

Point for discussion

Is it necessary or desirable for the auditor to obtain at the commencement of a new audit or at any time a certificate from a solicitor that the title deeds give a good title?

Plant Register

The Institute's Recommendation No. IX advised that plant registers should be kept and this is now customary with most large companies. It is, however, less customary for this register to be checked regularly with the plant itself. In most companies such a check could be carried out only with the assistance of an expert engineer and its effectiveness would depend, to some extent, upon the type of plant and machinery concerned. The amounts in the plant register should be reconciled in total with the financial accounts as part of the normal audit procedure.

Points for discussion

(1) *Is a plant register an essential book of account in the terms of the Companies Act, 1948?*

(2) *If so, should the auditor insist on it being checked regularly with the plant itself and at what intervals?*

Patents

The verification of patents often presents difficulties to the auditor due mainly to the inadequacy of the information available. Some companies leave all patent matters to their patent agents and, from an audit point of view, this is often the most satisfactory arrangement as the auditor can then obtain direct confirmation of the patent position from the agent. Where the company keeps its own records and has a substantial number of patents, it seems desirable that a register should be kept to record particulars of the date and number of the patents, the countries in which they have been registered, the annual renewal fees and the dates of expiry. Abandonment of patents—either generally or for particular countries should be noted on the register.

Point for discussion

Is there any advantage in companies keeping a patent register?

Stock and Work in Progress

(*a*) *General*

A student examining the history and practice of the accountancy profession might well express surprise that, after fifty years, the *Kingston Cotton Mill* case of 1896 is still remembered. The decision in that case, which seemed to relieve auditors in a large measure from the responsibility for the item stock and work in progress in the balance sheet has, for long past, been disregarded by many auditors who have seen that it is impossible to be satisfied with regard to the balance sheet or the profit and loss account without being satisfied as regards stock.

It would seem that stock-in-trade must rank high in the list of items requiring special attention because of its importance both in relation to the balance sheet and profit and loss account. The fact that stock is often difficult to check would, if we accept the principles set out on pages 306–7, provide an additional reason for according it special care and attention.

In his paper[1] at the summer course in 1949, Mr Goult dealt comprehensively with the auditor's duty in connexion with stock-in-trade and with the procedure which should be followed in carrying out those duties. The subject is of such importance that the Council recently decided to circulate Mr Goult's paper to all members, and many of you will be familiar with its contents. It is not necessary or desirable, in this general paper on auditing, to attempt to go over the ground again, but it may be helpful to draw attention to a few specific matters which seem to require further discussion.

(*b*) *Physical inventory*

During the 1949 summer course there was a lively discussion with regard to the merits of the American procedure which requires the auditor to attend at stocktaking to observe the making of physical tests. As evidence of the American procedure, Mr Goult quoted an extract relating to inventories from *Extensions of auditing procedure* issued by the Committee on Auditing Procedure of the American Institute of Accountants in October 1939. This extract reads as follows:

'(A) That hereafter, where the independent certified public accountant intends to report over his signature on the financial statements of a concern in which inventories are a material factor, it should be generally accepted auditing procedure that, in addition to making auditing tests and checks of the

[1] 'Stock-in-trade and the Auditor', reproduced in *The Accountant* of August 13th and 20th, 1949.

Goult's paper. There is general agreement within the profession that stock should be valued at cost or market value, whichever is the lower, but, as indicated later, there is no agreement as to what constitutes cost or market value. There are, however, certain basic principles which must be followed in order to comply with the Companies Act, namely:

(a) Stock must not be valued above the value at which it can be realized in the ordinary course of business.

(b) The basis of valuation should be such as not to distort the true and fair view of the profit of the year.

(c) The basis adopted should be consistently applied; if there is any change, the effect should be disclosed in the profit and loss account.

(d) Provisions made for diminution in value should be adequate but not more than are reasonably necessary.

These principles are easy to state but far from easy to apply in practice. Much of the difficulty arises in relation to the method of arriving at either cost or market value.

Some businesses take the cost of stock-in-trade and work in progress as the prime cost of materials and labour only, but probably an equal or even greater number add some proportion of the appropriate factory overheads. There is a wide variation as to the specific items of overheads to be included and as to the method of calculating the appropriate proportion to be carried forward as part of the cost of the stock. Recommendation No. X goes no further than to say:

> 'Cost should be calculated on such a basis as will show a fair view of the trend of results of the particular type of business concerned. Indirect or overhead expenditure, *if included* as part of the cost of partly processed or finished products, should be restricted to such expenditure as has been incurred in bringing the stock-in-trade to its existing condition and location.' (The italics are mine.)

The inference from this recommendation is that, for some types of businesses, a fair view of the profit will best be shown by including overheads in the cost of the stock whereas, in other types of businesses, overheads should be excluded. In practice, however, it is found that the method varies for similar businesses, the determining factors usually being past practice and the attitude of the Inland Revenue authorities. So long as these alternative methods are both in general use, it is difficult for the auditor to say, with authority, that either of them has resulted in a distortion of profits. Nevertheless, cases do arise where the exclusion of all overheads seems to result in an undue reduction of profits in periods when stocks are being built up and an undue increase in profits in times when stocks are being reduced. The auditor is thus called upon to exercise the most careful judgment in order to see that shareholders are not misled, particularly at times when stocks are declining.

Difficulties also arise in the definition of market value although, in this respect, Recommendation No. X leaves less discretion than it does as regards the calculation of cost. The recommendation reads as follows:

> 'Market value should be calculated by reference to the price at which it is estimated that the stock-in-trade can be realized, either in its existing condition or as incorporated in the product normally sold, after allowing for expenditure to be incurred before disposal. In estimating this price, regard should be had to abnormal and obsolete stocks, the trend of the market and the prospects of disposal.'

Interpreted literally this recommendation would seem to require that, in calculating the market value, the only deduction to be made from the estimated realizable price is that for estimated costs of disposal. It is, however, a common practice, particularly in the retail trade, to value obsolete stocks at a figure which will allow the same margin of profit to the business upon realization as can normally be expected from current stocks. A further difficulty arises with regard to the date upon which the market value is to be assessed. Is the estimate to be made at the date of the balance sheet or at the later date when the accounts are being prepared for publication?

It is, however, in connexion with matters covered by the last sentence of this recommendation that the greatest difficulty usually arises, particularly since the passing of the Companies Act, 1948, which, as already indicated, includes a requirement that provisions should not be more than are reasonably necessary. In the case of abnormal and obsolete stocks there is no infallible yard-stick by which the market price can be assessed and the auditor may well find that he has to rely in a large measure upon the opinion of the directors. It would seem that he can properly do so provided he is satisfied that the directors' estimate has been honestly made and that there is a reasonable basis for it. It is also suggested that the auditor should, where necessary, draw the directors' attention to their special responsibilities with regard to this item, having regard to the provisions of the Companies Act.

The auditor has to consider the position in the event of the estimates made by the directors being proved by subsequent events to have been unduly optimistic or unduly pessimistic. If stocks are sold at prices below or in excess of their written-down value, is the difference an exceptional item requiring disclosure in the year in which the sale was effecte? Or should the view be taken that estimates made the time in the light of information then available a final and that any difference resulting from realizati of the stock at a different price or by revision of t estimates in the subsequent year's accounts a factors affecting only the profits of such later year.

Another method of valuation which should, pe haps, be mentioned is the 'base stock' metho whereby that part of the stock which is regarded being the normal quantity necessary for the effecti operation of the business is carried in the accoun

inventory accounts and records, he shall, wherever practicable and reasonable, be present, either in person or by his representatives, at the inventory taking and by suitable observation and inquiry satisfy himself as to the effectiveness of the methods of inventory-taking and as to the measure of reliance which may be placed upon the client's representations as to inventories and upon the records thereof. In this connexion the independent certified public accountant may require physical tests of inventories to be made under his observation.

'In cases where the inventory is determined solely by means of a physical inventory at the end of the accounting period (or at a date prior or subsequent thereto but within a reasonable time thereof, with adequate records supporting the interim changes), it will ordinarily be necessary for the foregoing procedures to be followed at that time.

'In cases where the concern maintains well-kept and controlled perpetual inventory records supported by (1) a complete physical inventory at a date not coincident with the balance sheet date, or (2) physical inventories of individual items taken from time to time so that the quantity of each item on hand is compared with the inventory record for that item at least once in each year, it will be satisfactory to undertake the procedure outlined at any interim date or dates selected by the auditor, his purpose being to satisfy himself as to the credibility of the perpetual-inventory records and whether they may be relied upon to support the inventory totals as shown in the balance sheet.

'(B) That hereafter, in the case of inventories which in the ordinary course of business are in the hands of public warehouses or other outside custodians, direct confirmation in writing from such custodians is acceptable procedure; except that, where the amount involved represents a significant proportion of the current assets or of the total assets of a concern, the independent certified public accountant shall make supplementary inquiries.

'It should be clearly understood that in undertaking these auditing procedures regarding inventories, the independent certified public accountant does so for the purpose of satisfying himself as to the credibility of the representations of the management regarding quantity and condition and does not hold himself out as a general appraiser, valuer, or expert in materials.'

There seems to be widespread fear in this country that, if the American procedure were introduced here, the auditor's attendance at stocktaking might involve him in responsibility for matters requiring a technical knowledge which he cannot possess. It has been pointed out that an auditor cannot be an assessor or valuer. For example, he could not be expected to know whether a given stone in a jeweller's shop is diamond or paste; or whether a fur is of good or bad quality; or the difference between various grades of cloth. A careful reading of the American requirements would seem to indicate that these fears are exaggerated. It will be observed from the extract quoted above that the auditor should

'by suitable observation and inquiry satisfy himself as to the effectiveness of the methods of inventory-taking and as to the measure of reliance which may be placed upon the client's representations as to inventories and upon the records thereof. . . .'

and again,

'it should be clearly understood that in undertaking these auditing procedures regarding inventories, the independent certified public accountant does so for the purpose of satisfying himself as to the credibility of the representations of the management regarding quantity and condition and does not hold himself out as a general appraiser, valuer, or expert in materials'.

It is at least arguable that, by attending at a physical stocktaking, an auditor's responsibility is not affected provided it is made clear to the client that he is not acting as a valuer. It is the duty of an auditor, before reporting on the balance sheet and profit and loss account, to satisfy himself that stock has been properly taken and valued in accordance with recognized accountancy principles. It would seem that the main question for consideration is whether the auditor can carry out these duties more effectively by personally attending at the stocktaking. There is probably no general answer to that question.

In the case of large companies with reliable stock records and systems of continuous inventories, the auditor can, as a rule, satisfy himself as to the stock by his examination and test-checking during the course of the audit. Moreover, the quantity of stock involved is so large that the auditor, even with a number of assistants, could not examine any reasonable proportion of the total quantity.

It is, however, in the smaller businesses with less complete stock records that the auditor's attendance may be of value. In these cases the accuracy of the stock figure often depends entirely upon the physical inventory at the end of the year and it seems essential that the auditor should satisfy himself with regard to the procedure to be followed in taking that inventory. It is, of course, possible to do this without actually attending at the stocktaking, but it is suggested for consideration that it cannot be done unless the auditor takes some action at or before the close of the financial year. At the time of the audit – perhaps two or three months after the close of the year – it is too late to take any action in respect of the stock for that year and it is too early to make recommendations for the following year with any certainty that they will not be overlooked in the meantime. It is suggested, therefore, that it is advisable, in many cases, for the auditor either to attend on the day of stocktaking or a few days in advance of that date in order to satisfy himself as to the effectiveness of the arrangements which are being made by the management.

Point for discussion

Is the auditor's attendance at stocktaking desirable?

(c) Basis of valuation

The basis of valuation of stock is dealt with fully in the Institute's Recommendation No. X[1] and in Mr

[1] Reproduced in *The Accountant* dated June 16th, 1945.

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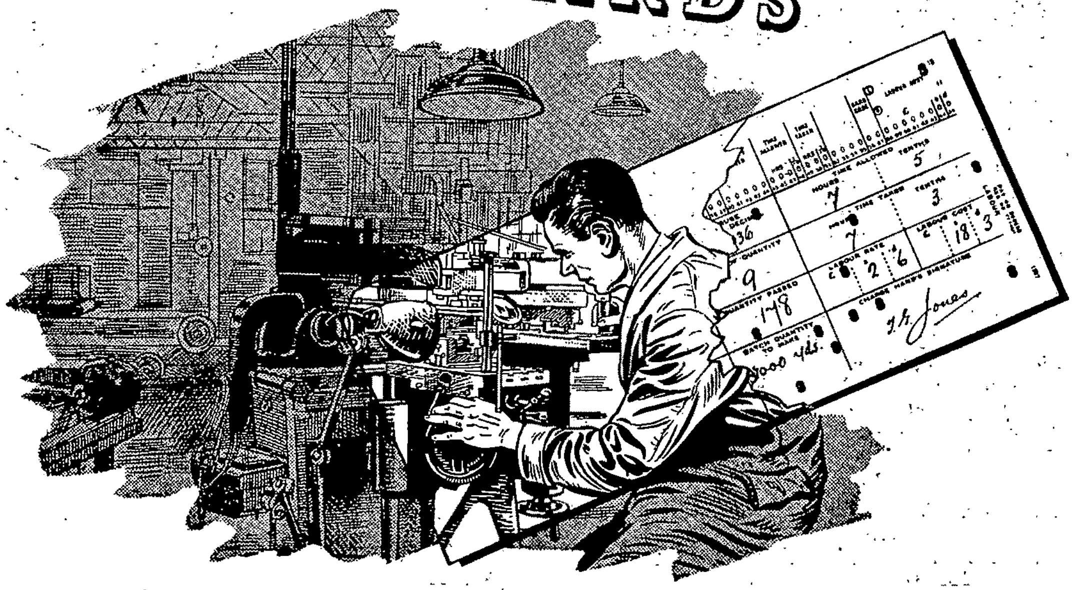

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at a low basic price and is retained at that price irrespective of market fluctuations. This method has much to commend it in certain industries but it raises questions which require consideration in connexion with the provisions of the Companies Act.

Points for discussion

(1) *Would there be any advantage in trying to bring about a greater degree of standardization in the method of arriving at (a) cost; and (b) market price for (i) industry in general, or (ii) particular industries?*

(2) *If so, what steps should be taken to this end?*

(3) *Is the difference between the estimated market value adopted for stock valuation and the price eventually realized an exceptional profit or loss in the year in which the sale takes place?*

(4) *If the 'base stock' method is adopted, should the fact that this method has been adopted be disclosed in the balance sheet? If so, would a general disclosure be adequate or should the difference between the value of the stock at base prices and that at current costs be indicated?*

(d) Description in the balance sheet

In a series of lectures on the subject of 'The use of published accounts'[1] delivered to the members of the London and District Society of Chartered Accountants during last winter, the three speakers who addressed us from the point of view of a banker, an investor and an economist respectively, all criticized the lack of information in published accounts with regard to stock-in-trade and work in progress. One of the speakers threw out a challenge by suggesting that, as a profession, we did not care what was the basis of valuation so long as it was consistently applied.

[1] Reproduced in *The Accountant* dated December 16th, 1950, February 3rd and April 7th, 1951.

It will be seen from what I have already said that while, generally speaking, stocks are valued at cost or market price, whichever is the lower, there are wide differences in the methods employed for arriving at cost or market value and, as regards abnormal and obsolete stocks, a very high element of estimation enters into the calculation. It is understandable that some of those who read published accounts containing, as they do today, a mass of meticulous detail, feel it inconsistent with the present practice of full disclosure that so little information should be made available with regard to such an important item as stock.

It is questionable, however, whether there would be any advantage in disclosing the particular method adopted for arriving at the cost or market value of the stock. Such information in itself would be of little value unless particulars were given which would enable the reader to compare the method chosen with the various other methods that might have been adopted. There would also be considerable practical difficulties in disclosing the amounts by which stocks had been written down in order to provide for obsolete stock.

Points for discussion

(1) *Would there be any advantage in disclosing fuller information in accounts as regards the basis of calculating cost or market value of stock and work in progress?*

(2) *Should any indication be given of the amounts provided for obsolete and slow-moving stocks?*

Note. – The answer to this question depends partly on the answer to question (3) in the preceding section on basis of valuation.

(To be concluded.)

WEEKLY NOTES

The Royal Commission

The National Chamber of Trade, in a memorandum submitted to the Royal Commission on the Taxation of Profits and Income, makes a number of suggestions under the heading 'General social and economic questions'. It considers that incentives should not be over-emphasized in relation to wage-earners as compared with the executive or higher-income groups; raising the point at which sur-tax liability commences and making the gradation less steep would produce extra effort and a willingness to shoulder responsibility. It may also increase the yield of tax by greater earnings and less evasion. P.A.Y.E. should be simplified to lessen the workers' distrust of it. On the question of amalgamating it with social security payments, the Chamber is in favour of careful investigation of the possibilities of a practical scheme. Taxation should be modified so as not to strip a business of liquid resources necessary in a period of rapidly rising replacement costs and so as not to inhibit investment in ordinary shares, and other risk-bearing capital. Saving should be encouraged by increasing tax allowances for life insurance premiums and superannuation contributions, at the same time enabling business men to provide for death duties and giving employees a sense of security. Personal allowances should be adjusted to conform with present circumstances. Purchase tax, which forces up wage rates, should gradually be reduced and abolished, the loss of revenue being made up by a reduction in national expenditure. On the question whether the present tax treatment of companies is satisfactory, the Chamber refers the Commission to its submission to the Tucker Committee in the spring of 1950. The Chamber concurs in the submissions made by the Association of Certified and Corporate Accountants.

Free Gold Marketing

The controversy about the marketing of gold for industrial purposes has been a feature of the recent

meeting of the directors of the International Monetary Fund in Washington. Dr Holloway, the South African alternate governor of the Fund, has renewed the attack on his return to the Dominion. The struggle has now developed according to Dr Holloway into opposition between two groups, those who favour cheap gold (this includes in his classification the United States and this country) and the rest of mankind. The South African director has let it be known that his country considers that the Fund has no authority over the marketing of gold for industrial purposes. This may be rather a sweeping interpretation of the Fund's constitution, but the Fund's unwillingness to take action (on present showing) will give credence to it.

South Africa's continued vocal advocacy of a premium price for this kind of gold transaction could develop into a serious threat to the Fund. It is already a serious challenge to the opposite school of thought. If the Union insists in making further sales of this nature it will be difficult to stop other gold producers from doing the same and this covers a wide group of gold-producing countries – Canada, Rhodesia and West Africa. These countries are all within the Empire and two of them are in the sterling area. A wide split among the members of the Fund on this issue might therefore have some awkward implications for this country.

Since Dr Holloway's outburst against the Fund's policy the International Monetary Fund has gone some way to meet the South African point of view. It was announced last week-end that the Fund's control over the marketing of processed gold would be somewhat modified. In effect, the policing of the sale of gold from the mines is now left to the producer members of the Fund. The latter still holds the view that it is right in principle for gold to flow into official reserves so buttressing the world's currencies rather than for it to be absorbed into private hoards which are essentially volatile and a potential source of danger to stable exchanges. This gesture, as has been said above, is likely however to be the start of a problem rather than the end of one.

Commonwealth Conference Ends

It never looked likely that the Commonwealth Conference on raw materials, which ended last week, would achieve any epoch-making results. Such has proved to be the case. The differences of interest among the different Commonwealths represented were too great to result in any notable achievements without a good deal more preparation and perhaps force of critical circumstances than were forthcoming last week.

The results reached were thus no more than a general agreement to expand production and a better understanding of one another's point of view. Something will have been achieved if, as seemed possible from the wording of the communiqué after the conference, Britain's limited capacity to export capital equipment to the rest of the Commonwealth was clearly stated and understood. Explanations of that kind, however, do not provide answers. The fact that the Dominions cannot use their accumulating sterling balances to buy British capital equipment is not likely to increase their willingness to go on building up those reserves in London. Yet such willingness is an important factor in the stability of sterling.

Anglo-German Trade Agreement

A new trade agreement was signed at Bonn on Monday between representatives of this country and Western Germany. This will run from April 1st of this year to the end of December. Much of it is therefore retroactive.

The arrangement covers the export from this country into Germany of cotton, wool and linen yarns, textile machinery and miscellaneous chemicals as well as seasonal food. The United Kingdom will take from Germany steel and other metal manufactures, foodstuffs, dyestuffs and miscellaneous chemicals.

During the German balance of payments difficulties in April and May, imports were virtually suspended. Since then, O.E.E.C. has defined the lines on which Germany should arrange non-discriminatory quota schemes with other member countries of O.E.E.C. The new arrangement takes account of these rulings.

Price Reductions: End of Stage One?

Recent falls in the prices of goods in the shops have been continued and have spread into new lines in the past two weeks. In many cases the cuts have been substantial. It is too soon to tell if these efforts on the part of retailers to clear stocks have enticed the public back into the shops in large numbers. But it is pertinent to wonder whether these falls are going to go on or whether the downward adjustment is likely to be halted at this stage owing to the influence of conditions making for a return to higher prices.

There is evidence that apart from the attitude of the shopping public the balance of factors is making for higher prices rather than lower ones. World prices, for example, are not continuing their notable downward spiral of recent months. In the case of wool which has attracted most attention this summer, prices are beginning to recover. Australian merino wool was at over *26s* a lb. in March when prices were at a peak. Recently it slumped to around *9s 2d.* Last week it had recovered to about *10s 4d.*

So far as the position in this country is concerned, there is likely to be plenty of pressure from rising costs (both labour and raw materials) as well as increases of purchasing power seeking outlets over a smaller quantity of goods to cause prices to be firm over a lengthy period – until the defence drive eases off at any rate. This being so, once heavy inventories have been worked off among wholesalers and retailers there is no certainty that prices will not be marked up again. How quickly that might happen would, of course, depend in part on the attitude of the buying public.

FINANCE AND COMMERCE

Now that the stock markets can see the election platform from both sides, the issue has been clarified to some extent. It is either to be excess profits tax and moderation in dividends, or a capital gains tax and dividend limitation. There is little doubt which of these two evils the stock market considers the lesser, but as the market has no power to choose it is naturally anxious and uncertain.

Property Sale

Among the highlights of the financial world recently have been the very substantial deals in property. Six- and seven-figure transactions have been reported, some arranged by private treaty and therefore with no immediate interest to the general public: others involving property companies with quoted securities and thus with wider publicity.

Among the latter has been the sale of the whole of the freeholds and leaseholds of London Midland Associated Properties Ltd. The freeholds are shown in the balance sheet at March 31st, 1951, at £2,114,220 and leaseholds at £587,949 (less £5,841 amortisation) based on a professional valuation at January 31st, 1947. Since balance-sheet date, contracts have been exchanged for their sale at a price of £2,850,000. Pending completion, the purchaser takes all net income but undertakes to pay over an amount estimated at the rate of £140,000 per annum, subject to adjustments.

The chairman points out that the discrepancy between current assets and current liabilities on which he commented a year ago became increasingly larger. It was a case either of selling properties or raising further capital. And as it happened, a buyer came along. Stockholders, he says, have every reason to be satisfied, for while it is not intended to distribute any part of the amount to be received, the sale indicates a break-up value for the ordinary stock of 24s per 10 unit.

Such a transaction, the chairman adds, is not without its attendant problems, both as regards to the debenture-holders and their security and to the large reinvestment programme necessary if the company's income is to be maintained. The first has been largely dealt with. Negotiations are well in hand for reinvestment with prospects of improved net revenue.

We reprint the accounts this week.

Increase to What?

Lieut.-Col. Wilfred Cabourn Smith, F.C.A., tells shareholders in United Gas Industries, of which he is chairman, that the company's turnover 'once again beat the previous record, the increase for the year being £274,533'. He adds that sales for the first four months of this year show a considerable increase over last year. It is evident that the chairman considers the company's position to be very satisfactory, to say the least. It would have been easier for shareholders to appraise the position, however, if the turnover for the year had been given with a comparison so as to show the degree of improvement. By itself, £274,533 means nothing except that it is a movement in the right direction.

Col. Smith joined the board during the year following the death of Mr S. E. Cash, chairman since the formation of the company twenty-one years ago. Messrs Cash, Stone & Co, Chartered Accountants, were responsible for arranging the combine and Col. Smith, then a partner, was responsible for the audit.

The company brings together a number of concerns producing gas meters, water heaters, domestic cooking appliances, etc.

Insurance Valuation

In the case of accounts prepared on the basis of a fixed assets valuation, now obviously out of date, we strongly recommend the insertion of some evidence of current values. The following example taken from the consolidated balance sheet of the Parkland Manufacturing Co Ltd as at February 28th, 1951, provides as a note to the fixed assets, the current insurance valuation which shows the insured value to be seven times the book value.

	£	£	£
FIXED ASSETS			
(a) Freehold Land, Buildings, Plant, Machinery, Fittings, Furniture, Motor Vehicles, etc., in the case of the Parent Company as per valuation of Messrs Fuller, Horsey, Sons & Cassell at August 31st, 1936, plus subsequent additions to February 29th, 1948, at cost, less Sales; and at cost, less Sales, to February 29th, 1948, in the cases of three Subsidiary Companies and in the case of one Subsidiary Company at cost less sales to September 1st, 1948		1,090,026	
(b) Additions since February 29th, 1948, and in the case of one Subsidiary since September 1st, 1948 (at cost)		286,910	
		1,376,936	
Less.			
Depreciation to date, and in the case of one Subsidiary Company, amount written off under Capital Reduction Scheme on (a)	737,521		
Depreciation to date on (b)..	84,918		
		822,439	
			554,497

Note. The Fixed Assets totalling £554,497 are insured for the sum of £2,744,125 valued on reinstatement basis except in the case of buildings of one Subsidiary which are valued on basis of indemnity value.

Another point in these accounts is the transfer of the reserve for variation of raw material prices and the trade investment reserve to the reserve for contingencies 'so that there will be one reserve against contingencies of all kinds'.

The move seems eminently reasonable.

Only 5 Per Cent

Mr Geoffrey Bostock, F.C.A., chairman of Burberrys Ltd, tells shareholders, in his statement with the

LONDON MIDLAND ASSOCIATED PROPERTIES LIMITED AND ITS SUBSIDIARY

Consolidated Balance Sheet as at March 31st, 1951

1950 £			Authorized £	Issued £
	Capital			
	4½ per cent Cumulative Preference Stock		396,000	396,000
	Ordinary Stock		264,000	264,000
	Shares of £10 each		340,000	—
660,000			£1,000,000	660,000
	Capital Reserve			
	Balance at January 31st, 1950		199,405	
	Less Amounts written off properties in respect of houses sold	£2,396		
	Expenses of acquisition of properties	1,773		
			4,169	
199,405				195,236
	Revenue Reserves			
1,638	General Reserve	4,175		
2,775	Future Taxation (Schedule D, 1951–52)	3,884		
16,813	Profit and Loss Account, Balance unappropriated	28,117		
				36,176
880,631				891,412
	Loan Capital (Secured)			
	3½ per cent First Mortgage Debenture Stock	1,500,000		
	Less Amount redeemed and cancelled	24,092		
1,490,900			1,475,908	
285,624	Loans on Mortgage		254,054	
1,776,524				1,729,962
	Note. £180,000 of 4½ per cent Debenture Stock issued as collateral security has been redeemed and is available for reissue.			
5,000	Provision for Maintenance and Repairs			—
	Current Liabilities			
10,088	Sundry Creditors and Accrued Charges		3,967	
—	Holding Companies' Loan and Current Accounts		45,391	
78,250	Current Taxation Accrued		51,646	
—	Bank Overdraft		421	
13,325	Debenture Interest Accrued (*less* Income Tax)		4,397	
4,901	Dividend on Preference Stock accrued to date (*less* Income Tax)		1,633	
12,342	Proposed Final Dividend on Ordinary Stock (*less* Income Tax)		9,702	
118,906				117,157
£2,781,061				£2,738,531

1950 £			£	£
	Fixed Assets			
	Freehold and Leasehold Properties			
	Based on professional valuation at January 31st, 1947, with additions since at cost:			
2,129,195	Freehold Properties		2,114,220	
587,949	Leasehold Properties	£587,949		
4,057	*Less* Provision for Amortisation	5,841		
583,892			582,108	
2,713,087			2,696,328	
7,050	**British Government Securities,** at cost (held by Debenture Stock Trustees) (Market Value £7,209)		7,050	
				2,703,378
560	Cash in hands of Debenture Stock Trustees			560
1,747	Motor Cars			—
2,722,444				2,703,938
	Current Assets			
18,982	Sundry Debtors and Prepayments		30,525	
69	Deposits with Building Societies		—	
646	Stocks of Fuel and Maintenance Materials		882	
337	Sundry Investments (unquoted) *less* Reserve		337	
38,583	Balance at Bank and Cash in hand		2,849	
58,617				34,593
£2,781,061				£2,738,531

Notes.

(1) The Group has entered into an agreement to sell all its Freehold and Leasehold properties for £2,850,000. Pending completion (which has not yet taken place) the purchaser is entitled to receive the net income from the properties and has undertaken to pay to the Group an amount estimated at the rate of £140,000 per annum, subject to adjustments.

(2) There is a contingent liability of £16,493 in respect of partly paid Shares held in Finance Corporation for Industry Ltd.

(3) Profits Tax for the period from July 1st, 1950, in excess of 10 per cent will be borne by the Holding Company which has elected to be assessed on a group basis.

R. W. R. ALLEN, R. LUDKIN } *Directors*

Consolidated Profit and Loss Account for the Fourteen Months ended March 31st, 1951, with Comparative Figures

£		£	£
48,602	Debenture Stock Interest (gross)		56,327
11,925	Mortgage Interest		12,599
6,590	Administration Expenses		6,552
—	Present Directors' Remuneration		808
2,000	Past Directors' Remuneration (with benefits in kind, in addition estimated at £800)		625
130	Bank Interest		155
263	Debenture Trustees' Remuneration		306
315	Audit Fees		315
642	Other Professional Charges		251
437	Depreciation and Loss on Sale of Motor Cars		363
—	Loan Interest		807
62,813	Balance carried down		83,836
£133,717			£162,944
5,000	Provision for Maintenance and Repairs		—
	Provision for Taxation:	£	
14,491	Profits Tax	11,665	
21,759	Income Tax	30,687	
36,250			42,352
1,493	Provision for Amortisation of Leasehold Properties (no provision is made for depreciation of Freehold Properties)		1,784
1,638	Transfer to General Reserve		2,537
	Dividends on Capital of London Midland Associated Properties Ltd:	£	
9,801	Dividends on Preference Stock paid and accrued (*less* Income Tax)	11,434	
5,808	Interim Dividend on Ordinary Stock (*less* Income Tax)	7,260	
12,342	Proposed Final Dividend on Ordinary Stock (*less* Income Tax)	9,702	
27,951			28,396
	Balance carried forward:		
15,296	London Midland Associated Properties Ltd	24,966	
1,517	Subsidiary Company	3,151	
16,813			28,117
£89,145			£103,186

£		£	£
133,501	Net Revenue from Rentals (including amounts receivable from purchasers in lieu thereof) after deducting outgoings and crediting £5,052 (1950 £6,200) transferred from provision for Deferred Repairs		162,715
29	Transfer Fees		26
187	Interest on Investments		203
£133,717			£162,944
62,813	Balance brought down		83,836
1,638	Profit on Redemption of Debentures		2,537
7,000	Provision for Taxation in previous years no longer required		—
	Balance brought forward from 1950:	£	
17,184	London Midland Associated Properties Ltd	15,296	
510	Subsidiary Company	1,517	
17,694			16,813
£89,145			£103,186

LONDON MIDLAND ASSOCIATED PROPERTIES LIMITED

Balance Sheet as at March 31st, 1951

1950			Authorized	Issued
£	**Capital**		£	£
	4½ per cent Cumulative Preference Stock		396,000	396,000
	Ordinary Stock		264,000	264,000
	Shares of £10 each		340,000	—
660,000			£1,000,000	660,000
	Capital Reserve			
	Balance at January 31st, 1950		199,405	
	Less Expenses: acquisition of properties	£1,773		
	Amounts written off in respect of houses sold	2,396		
			4,169	
199,676				195,236
	Revenue Reserves			
1,638	General Reserve		4,175	
15,296	Profit and Loss Account, Balance Unappropriated		24,966	
16,934				29,141
876,610				884,377
	Loan Capital (Secured)			
1,490,900	3¾ per cent First Mortgage Debenture Stock		1,500,000	
	Less Amount redeemed and cancelled		24,092	
				1,475,908
	Note. £180,500 of 4½ per cent Debenture Stock issued as collateral has been redeemed and is available for reissue.			
	Provisions for Maintenance and Repairs			
5,000				—
	Current Liabilities and Provisions			
9,241	Sundry Creditors and Accrued charges		3,557	
—	Holding Companies' Loan and Current Account		45,391	
81,498	Subsidiary Company's Current Account		63,124	
56,780	Current Taxation Accrued		31,535	
13,325	Debenture Interest Accrued (*less* Income Tax)		4,397	
4,901	Dividend on Preference Stock (*less* Income Tax)		1,633	
12,342	Proposed Final Dividend on Ordinary Stock (*less* Income Tax)		9,702	
178,087				159,339
£2,550,597				£2,519,624

1950				
£	**Fixed Assets**		£	£
	Freehold and Leasehold Properties			
	Based on Professional Valuation as at January 31st, 1947, with additions since, at cost:			
1,774,072	Freehold Properties		1,774,289	
547,911	Leasehold Properties	£547,911		
3,709	*Less* Provision for Amortisation	5,237		
544,202			542,674	
2,318,274			2,316,963	
	British Government Securities, at cost (held by Debenture Stock Trustees) (Market Value £7,209) ..			
7,050			7,050	
				2,324,013
560	**Cash in hands of Debenture Stock Trustees**			560
1,747	**Motor Cars**			—
2,327,631				2,324,573
169,340	**Shares in Subsidiary Company**, at cost, *less* amounts written off in respect of houses sold			166,673
	Current Assets			
16,812	Sundry Debtors and Prepayments ..		24,364	
69	Deposits with Building Societies ..		—	
576	Stocks of Fuel and Maintenance Materials		858	
337	Sundry Investments (unquoted) *less* Reserve		337	
35,832	Balance at Bank and Cash in hand ..		2,819	
53,626				28,378
£2,550,597				£2,519,624

Notes.

(1) The Company has entered into an agreement to sell all its freehold and leasehold properties for £2,575,000. Pending completion (which has not yet taken place) the purchaser is entitled to receive the net income from the properties and has undertaken to pay to the Company an amount estimated at the rate of £121,000 per annum, subject to adjustments.

(2) There is a contingent liability of £16,493 in respect of partly paid shares held in Finance Corporation for Industry Ltd.

(3) Profits Tax for the period from July 1st, 1950, in excess of 10 per cent will be borne by the Holding Company which has elected to be assessed on a group basis.

R. W. R. ALLEN
R. LUDKIN } *Directors*

accounts to March 31st, of the company's predicament under the proposed dividend freeze. The business, he says, has produced a profit before taxation of £371,254 as compared with £185,466 in 1949–50, the highest recorded except for 1920 – the company's first year – when the figure was £408,949. He emphasizes, however, that the pounds of today are not what they were.

While he hopes for a satisfactory profit during the current year, he points out that if the control proposals become law, the maximum distribution on the 'A' and 'B' stocks will be 5 per cent, as no dividend was paid on these stocks for the past two years.

Arbitrary selection of the past two years as the basis for dividend payments during the next three years, he says, is unfair, particularly so in the case of companies which have been unable to pay regular dividends. In such cases, he maintains, the ordinary stockholders can reasonably expect to get something more than 5 per cent to make up for the bad years.

George Cohen, Sons & Co

When referring to the accounts of George Cohen, Sons & Co Ltd last week, we said that Mr George Cohen was chairman of the company. We are reminded that although Mr George may still be a member of the board in spirit he has not been so in body these hundred years or more. The present chairman and managing director is Mr Cyril M. Cohen.

Money Market

Although an additional £20 million of Treasury bills was available on September 28th, making the total offer £260 million, applications at £338,720,000 were less than £3 million higher than the previous week. As a result the allotment basis was 68 per cent of requirements. The average rate was lowered to 10*s* 2·98*d* per cent compared with 10*s* 4·87*d* per cent previously. This week the offer of bills is reduced to £250 million. There is no call against Treasury deposit receipts this week.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Stocks, Standards and Variances

SIR, – In his letter in *The Accountant* of September 29th, Mr P. Lloyd raises the point as to whether in my simplified examples I intended the adjustment of the provision to reduce stock from 'cost' down to 'market value' to be a 'net' figure, i.e. the difference between the provision brought forward from last year in respect of the opening stock and the provision required on the closing stock. The answer is yes.

The provision strikes me as being almost precisely analogous to that made in respect of doubtful debts. We write off bad debts actually incurred; likewise we write off unrealizable stock. Then we make a provision to cover any doubtful debts that may not be realized. We do not alter the amount of debt shown against the debtor. Each year we calculate the provision required and write off to profit and loss account any difference between last year's provision and the provision required this year.

So I see no reason why the provision for doubtful stock should not be treated in the same way. The trading account would open with stock at (standard) cost, and close with stock at (standard) cost, after writing off any unsaleable stock. It will then show what profit or loss was, in fact, ultimately realized on the stock brought forward from last year.

The provision brought forward from last year is then brought into credit. It represents the extent to which this year's distributable profits have benefited by amounts brought forward from last year. In fact, if the provision made last year was unduly pessimistic and was not ultimately justified, then it represents a 'windfall' to the credit of this year's distributable profit.

The provision required in respect of the closing stock is then deducted before striking the balance of distributable profit for this year.

Yours faithfully,

Ragnall, Notts. F. CLIVE de PAULA.

Accounting Terms and Concepts

SIR, – I have read the report of the Joint Exploratory Committee appointed by the Institute of Chartered Accountants and the National Institute of Economic and Social Research which you, sir, reviewed in your issue of August 25th, 1951, and I agree with you that it clears the air and pins down the points of difference between economists and accountants, yet it is disappointing to find that after more than five years of discussion this committee has achieved little more than to agree to differ.

It is not, I presume, intended that further exploration of their differences should be abandoned, and for my part I think our Institute has been too kind in this matter. It is the economists who demand a change in the definition of profit and it is for them to show that the alteration is desirable and practical. Again, it is the economist who should take the broad view, bringing a balanced judgment to all aspects of the matter, whereas they appear to hold firmly to the idea of real wealth to the exclusion of other considerations.

If we could deal all the time in real wealth there would be no money to become unstable and no problem to be solved. This being impossible, I do not think we shall improve the rules of the game by singling out profit for special treatment. From a national point of view, if profit is calculated by orthodox methods *and all income is spent*, as a nation we shall, in times of inflation, be living on our capital. This cannot be disputed, but since this capital is all owned by one section of the community we cannot rectify the matter unless we are prepared to protect the savings of this section from the effects of inflation, while doing nothing for other savings.

Since savings are equal to outlay on equipment and additions to stocks, from a national point of view those who have saved have, as it were, a lien on those additions, for their labour went into the common pool, but their spending did not draw out as much as they put in. Consequently, any unbiased man must admit that all savings should be treated alike. If they are invested in equities they are protected by the economists' real wealth principle, but if for the sake of security they are loaned to the owners of real wealth they are not protected, yet the owners, who have not saved in this instance, are protected. I submit that economists must say how this gross injustice is to be avoided before their proposal can even be considered by accountants.

This is no idle quibbling. The cure for inflation is not to cut down outlay on new equipment, for increased equipment is the basis of a better standard of living. On the contrary, it is to increase saving, and since taxation leaves so little to the rich it is small savings which must be fostered, and the natural outlet for these is to seek, one way or another, the security of a bond rather than equities which economists are so anxious to protect.

But economists are not even consistent in applying their principle of real wealth. If we cling to orthodox profits in times of inflation we shall dip into our accumulated wealth, they say, so let's change over to replacement cost accounting, however unjust or impractical it may be. Yet these same economists will advocate government deficit spending as a pump primer should unemployment rear its ugly head, in spite of the fact that deficit spending to date amounts to some £25,000 million in return for which it is doubtful if the nation possesses as much as £500 million of real wealth. The rest has been

destroyed in many wars, or squandered in peace.

If, then, it will improve the rules of the game to adopt the principle of real wealth, the voices of our economist friends should be raised just as loudly against government deficit spending as they are against orthodox profit. Yet instead of decrying it they advocate it.

Their inconsistency cannot be denied, for just as orthodox accounting does not provide for the whole of the wastage of real wealth, so the principle of deficit spending ignores the fact that the wealth created by those who received the money is destroyed. In fact it goes further, for the money received is regarded as part of the national income even if no services are given in return and, therefore, no wealth is created. The result is that nearly £25,000 million of saving has no backing of real wealth. Why, then, be so concerned if saving part of orthodox profit does not result in an addition to real wealth but merely offsets the effect of inflation. Having swallowed the camel, why strain at the gnat.

There is no way of avoiding this except we give up deficit spending and that is impractical. It is after all a useful tool in the world of money. But the idea that business men should be rewarded by the difference between their cost and their selling price is also a useful tool. Merely on a question of principle, having accepted the one they must accept the other, which demolishes the case they have put up, for I would remind you, sir, that in their joint report they have done no more than set out the principle of real wealth as applied to the calculation of profit.

If, then, they still wish to alter the definition of profit they must abandon the question of principle and fall back upon practical necessity. This means that they must show that if the new definition is not adopted the life-blood of British industry will drain away, but this avenue of escape is closed to them, for, as I pointed out in a recent article published by you, it is impossible for them to show that there is any danger of this happening as a result of retaining the orthodox method of calculating profits.

If economists wish to apply the principle of real wealth merely for national accounting purposes, accountants, of course, have no quarrel with them, but if, as I understand is the case, they demand its application to the rules for the use of money, then considerations of justice and plain honesty arise which I maintain leave accountants with no alternative but to insist that the orthodox method is retained.

The community has over many centuries evolved these rules which are designed to increase the usefulness of money. They will work to the extent that the old-fashioned virtues of enterprise, honesty, hard work and thrift are fostered by the people. To my mind the change which economists advocate does not conform to these virtues, and I deplore the idea that by adopting the new definition of profit we as a profession would improve our service to the community. At the best we should be trying in a well-meaning but mistaken way to make inflation work, whereas all our efforts should be concentrated on stopping this dishonest thing which is slowly undermining the stability of the state.

There has recently appeared in *The Economist* a series of articles[1] in which the writer admits the injustice of inflation but suggests that as this condition is likely to continue we should make our bed as comfortable as we can by correcting all income and all savings in relation to current prices, which amounts to adopting the principle of real wealth for all. This overcomes my objections, but as the editor of *The Economist* points out, to do this would inevitably lead to runaway inflation. This, to me, is the perfect example of the ultimate end of current economic thinking, for these economists, to me, are false prophets who would establish their erudition and at the same time bemuse us with their jargon, but in reality they say to you and I, never mind how greedy, lazy and extravagant you are, leave everything to us and we will see that you never suffer for your sins. They offer us the broad highway, and how pleasant it appears, but it leads to destruction.

Therefore I am fortified and encouraged by the action of our Institute in standing fast for orthodox methods, and I naturally hope that they will not be satisfied with the present stalemate, for I think that our position in relation to the public requires that we should speak with no uncertain voice in this matter, yet may be, in their wisdom, they are right to say *no* and leave it at that.

Yours faithfully,

King's Norton, Birmingham. H. A. BRISCOE.

An Invitation to Articled Clerks

SIR, – May I have the hospitality of your columns to ask for names of articled clerks who would be prepared to join my articled clerk in an experimental study period, which I propose to conduct in order to obtain factual evidence of certain educational theories. The study period will be held at my home, 7 Mansfield Street, Portland Place, London, W1, from 2 p.m. until 5 p.m. on Tuesdays.

The articled clerks concerned must be of the same educational standard as my articled clerk, that is, they must have joined, or be joining their principals between July and November of this year, inclusive, and because they must be working from the same books, they must be taking the elementary correspondence course of the same firm as my articled clerk.

The primary object of the instruction which I shall give will be to guide the articled clerk to plan his own studies and to show him how to work. It is planned to run the study periods for an initial trial period of two and a half months, commencing as soon as possible after the publication of this letter. There will be no charge.

Yours faithfully,

London, W1. ANCRUM F. EVANS.

[1] Published separately by *The Economist* under the title *The Age of Inflation*.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

NEW MEMBERS

Ninety-nine applicants were admitted to membership of the Institute at a special general meeting held in Edinburgh on September 21st, 1951. Their names are set out below in alphabetical order, the names of the firms with which they served their apprenticeships being shown in brackets.

Adamson, William (Arthur Walker, Edinburgh).

Aitken, John (Mann, Judd, Gordon & Co, Glasgow).

Alexander, James Watson (John E. Watson & Co, Glasgow).

Allan, Donald Grant (R. & E. Scott, Edinburgh).

Archer, Anderson (A. G. Murray & Co, Edinburgh).

Armour, Peter Hamish (Romanes & Munro, Edinburgh).

Baillie, James (McLay, McAlister & McGibbon, Glasgow).

Bain, Harry Edward (Romanes & Aitchison, Edinburgh).

Barclay, Robert Reid (Blair & Young, Glasgow).

Bartholomew, Edward Guy (Brown, Fleming & Murray, London).

Bishop, Robert Henry Anderson (McLachlan & Brown, Glasgow).

Bisset, Thomas Melville (Harold Sinclair & Blair, Glasgow).

Boyd, William Bryce (Galbraith, McEwan & Co, Glasgow).

Brebner, David Alexander (Thomson McLintock & Co, London).

Brock, Andrew Duncan (Wm. Duncan & Co, Glasgow).

Brooks, William Norman (A. & J. Robertson, Edinburgh).

Brown, James Adamson (Arthur Walker, Edinburgh).

Bryson, Jeffrey (Kerr, MacLeod & Macfarlan, Glasgow).

Burry, Ronald Duncan (Don & Stewart, Dundee).

Cameron, Duncan Inglis (Alfred Tongue & Co, Glasgow).

Campbell, James Wright (McLachlan & Brown, Glasgow).

Campbell Penney, Michael Erroll (John M. Geoghegan & Co, Edinburgh).

Carvel, John Oswald Alexander (McLay, McAlister & McGibbon, Glasgow).

Chaplain, Ian Ingram Bertram (Gillespie & Anderson, Glasgow).

Clow, William McCallum (John E. Watson & Co, Glasgow).

Corrance, John Thorburn (Wm. Duncan & Co, Glasgow).

Cowie, John Duncan (McClelland, Ker & Co, Glasgow).

Cree, Robert Maxwell Hannay (McClelland, Ker & Co, Glasgow).

Croll, Andrew Law (Moody Stuart & Robertson, Dundee).

Cutmore, Peter Ronald (Thomson, McLintock & Co, London).

Duane, Geoffrey Edward (F. A. Ritson & Co, Elgin and A. G. McBain & Co, Glasgow).

Fraser, William Alexander (Rattray Brothers, Alexander & France, Glasgow).

Gall, William (Wm. Duncan & Co, Glasgow).

Gardiner, Frederick Michie (James Milne & Co, Aberdeen).

Gardner, Hugh John (Peat, Marwick, Mitchell & Co, Glasgow).

Gordon, Charles (Moores, Carson & Watson, Glasgow).

Graham, James Robertson (W. R. Campbell, Falkirk).

Hamilton, Gavin Crawford (McClelland, Ker & Co, Glasgow).

Hamilton, William Montgomerie (Reid & Mair, Glasgow).

Hardie, John (Steven, Lindsay Scott & Co, Glasgow).

Hardie, Michael Scott (Chiene & Tait, Edinburgh).

Hare, Robert Charles (Wrigley, Cregan, Todd & Co, London).

Hay, James Renton (A. & C. M. Davidson Smith, Edinburgh).

Haynes, Michael Leonard (J. Wyllie Guild & Ballantine, Glasgow).

Herd, Thomas Cunningham (John E. Watson & Co, Glasgow).

Hillcoat, Robert (Peacock & Henry, Glasgow).

Inglis, Thomas Alexander (A. & C. M. Davidson Smith, Edinburgh).

Jack, Robert Reid (Kerr, Macleod & Macfarlan, Glasgow).

Jones, Norman Bruce Baskerfeild (Elles, Reeve & Co, London).

Kerr, George Henderson (W. R. McDonald & Gordon, Edinburgh).

Kirby, Michael Lawrence (Smedley, Rule & Co, London).

Lowry, Daniel Jamie (Walter & W. B. Galbraith, Glasgow).

Lowth, Mark Robert Tregonwell (Brown, Fleming & Murray, London).

Luczyc-Wyhowski, Stanislaw Joseph Leon (Chiene & Tait, Edinburgh).

McArthur, William (S. Easton Simmers & Co, Glasgow).

McCrae, Andrew (Thomson McLintock & Co, Glasgow).

McDermid, Archibald Robb (Alexander Sloan & Co, and Alexander McDermid, Glasgow).

Macdonald, James Simon Forbes (Martin, Currie & Co, Edinburgh).

McInroy, Alan Roderick (Scott-Moncrieff, Thomson & Shiells, Edinburgh).

McKay, Angus Donald (Kidston, Goff & Harvey, Glasgow).

Mackenzie, Henry Gordon (Arthur Walker, Edinburgh).

McKerrell, Alexander Dewar (John E. Watson & Co, Glasgow).

Macnab, John Duncan (Kennedy Smellie & Co, Edinburgh).

Magowan, Samuel (Alexander Sloan & Co, Glasgow).

Melrose, Thomas Vance (Taylor & Ireland, Glasgow).

Mitchell, John (A. G. Murray & Co, Edinburgh).

Morison, Robert MacKenzie (Thomas McLintock & Co, London).

Murphy, Maurice Coghill (Lindsay, Jamieson & Haldane, Edinburgh).

Murray, David Alexander Roberts (John M. Geoghegan & Co, Edinburgh).

Normand, The Honourable William (Chiene & Tait, Edinburgh).

Paterson, Alan Sinclair (Peacock & Henry, Glasgow).

Pollard, Hugh Robert (Martin, Currie & Co, Edinburgh).

Pomphrey, Charles Frederick (Wallace & Somerville, Edinburgh).

Ralston, Frederick William (Muir & McIntyre, Glasgow).

Richardson, John Charles (Charles Burrows & Co, Edinburgh).

Richmond, George Walker Grant (Grahams, Rintoul, Hay, Bell & Co, Glasgow).

Robertson, David Ivan (Henderson & Loggie, Dundee).

Robertson, Kenneth Mackenzie (Howden & Molleson, Edinburgh).

Robin, Alistair Don (Kidston, Goff & Harvey, Glasgow).

Rowland, Michael Arthur (Smedley, Rule & Co, London).

Scouller, Daniel Gilmour (Mann, Judd, Gordon & Co, Glasgow).

Sharp, George Kenneth (Thomson McLintock & Co, Glasgow).

Shaw, Alexander Currie (Thomson McLintock & Co, Glasgow).

Sloan, Donald Allen (Wm. Home Cook & Co, Edinburgh).

Smith, Ronald Thomson (William D. Anderson, Edinburgh).

Smith, Sydney Harold (McClelland, Ker & Co, London).

Stevenson, Ian Laidlaw (Thomson McLintock & Co, Glasgow).

Strachan, Henry (McLachlan & Brown, Kilmarnock).
Strover, George Miles (Brown, Fleming & Murray, London).
Stuart, Walter Murie (J. & R. Morison & Co, Perth, and John M. Geoghegan & Co, Edinburgh).
Taylor, William Scott (Miller, McIntyre & Gellatly, Dundee).
Templeton, John Kinniburgh (McClelland, Ker & Co, Glasgow).
Thom, Hugh (Todd & Gordon, Glasgow).
Thomson, James Garden Cornwallis (J. C. Thomson & Co, and J. Wyllie Guild & Co, Glasgow).
Thorburn, Robert (Baird & Macmillan, Glasgow).
Waddell, Walter (Thomson McLintock & Co, Glasgow).
Watson, Roderick Dallas (David Strathie & Co, Glasgow).
Weatherstone, Robert Bruce (McKerrel Brown & Gray, and Wm. Home Cook & Co, Edinburgh).
Womack, Alan Frederick (George A. Touche & Co, London).

NOTES AND NOTICES

Personal

MESSRS ANNAN, DEXTER & CO, Chartered Accountants, 21 Ironmonger Lane, London, EC2, announce that they have taken into partnership as from October 1st, 1951, Mr CHRISTOPHER INGRAM BOSTOCK, M.A., A.C.A., fourth son of their senior partner to whom he was articled.

MESSRS W. G. HAWSON, WING & CO, Chartered Accountants, of Hartshead Chambers, Sheffield, 1, announce that Mr G. R. LITTLEWOOD, A.C.A., A.S.A.A., Mr H. WOODRUFF, A.C.A., and Mr F. HYATT, A.C.A., A.S.A.A., have joined the firm as partners as from October 1st, 1951. The new partners have all been associated with the firm for a number of years.

MESSRS D. W. COATES, WEST, GRIMWOOD & CO, Chartered Accountants, of 72 and 74 Victoria Street, London, SW1, announce with regret the death of Mr LIONEL HENRY WEST, F.C.A., who had been a partner in the firm for over thirty years. The practice will be continued by the remaining partners and the firm name will be unchanged.

MESSRS GEORGE A. TOUCHE & CO, Chartered Accountants, of London and Birmingham, announce that they have admitted to partnership, as from October 1st, 1951, Mr ANTHONY GEORGE TOUCHE, A.C.A., son of the senior partner.

MESSRS CLEMETSON, HILL & CO, Chartered Accountants, of 34 Pencester Road, Dover, and Messrs CLEMETSON, HILL, CROMWELL WOOD & CO, Chartered Accountants, of 5 Dane John, Canterbury, announce that Mr ALBERT HILL, A.C.A., has retired from partnership in the above firms as from September 30th, 1951. Mr EDWARD HENRY STANFORD, A.C.A., has been admitted a partner to both firms as from October 1st, 1951.

MR KENNETH W. DEACON, F.C.A., and Mr ALEC GUILD, A.C.A., practising as DEACON, GUILD & CO, Chartered Accountants, of Halifax Chambers, High Street, Coventry, announce that as from September 1st, 1951, they have taken into partnership Mr RONALD E. WEAVER, A.C.A., who served his articles under Mr DEACON and has since been a member of the staff for some years. The name of the firm will remain unchanged.

MESSRS POULSOM & CO, Chartered Accountants, of National Bank Building, Fenwick Street, Liverpool, and Pioneer Assurance Chambers, 31 Dale Street, Liverpool, announce that Mr NORMAN GEOFFREY WILLIS, A.C.A., has been admitted to partnership as from October 1st, 1951. The name of the firm remains unchanged.

MESSRS CREASEY, SON & WICKENDEN, Chartered Accountants, announce that their Tonbridge office has removed to Westminster Bank Chambers, 130 High Street, Tonbridge, Kent. The telephone remains Tonbridge 3893.

MESSRS CAYZER & CO, Chartered Accountants, of London and High Wycombe, announce that as from October 1st, their London address has been changed to 27 John Adam Street, Adelphi, WC2. Telephone: Trafalgar 1932.

MESSRS WALTON, WATTS & CO, Chartered Accountants, of Chancery Chambers, 55 Brown Street, Manchester, 2, announce with regret the death on September 21st of their second partner, Mr HORNER STANLEY WILSON, F.C.A. The firm is being carried on in the same name by the four remaining partners.

Professional Note

Mr Douglas A. Clarke, LL.B., F.C.A., a partner in the firm of Pannell, Crewdson & Hardy, Chartered Accountants, has been appointed by the Bishop of London to be a member of the Committee for the redistribution of City Parochial Charities grants to City churches.

The Institute's Autumnal Meeting

Those members of the Institute attending the autumnal meeting on October 11th to 13th, who will be travelling to Torquay by car, are warned that delays to road traffic are likely to occur in the area covered by the military manoeuvres which will then be in progress, especially on the London–Bath (A4) and the London–Exeter (A30) roads.

We understand from the War Office, however, that plainly indicated diversions for civilian traffic will be in operation at certain periods and if these are followed delays will be minimized. Motorists are nevertheless advised as far as possible to avoid entering the area of major military congestion. We also gather that in order to make the exercise as realistic as possible, lighting on military vehicles will be reduced to a minimum and in certain cases lighting may be dispensed with altogether.

London and District Society of Chartered Accountants

On Tuesday, October 23rd, Mr Frederick Grant, K.C., will give a lecture on 'Points arising on the Finance Act, 1951', at 6 p.m. in the Hall of the Chartered Insurance Institute, Aldermanbury, EC2.

Full details of the programme for 1951–52 will be issued shortly.

Double Taxation Relief

The Share and Loan Department of the Stock Exchange has published, as a supplement to the *Stock Exchange Weekly Official Intelligence*, a table showing the maximum rates by reference to which shareholders may claim relief from United Kingdom income-tax in respect of dividends received from oversea companies. The table covers the tax years 1946–47 to 1949–50 inclusive and also gives the agreed fraction, where appropriate, of the profits which have already borne United Kingdom income-tax in the companies' hands – this for the purpose of Section 31, Finance Act, 1946. A very large number of companies appear and are grouped in countries, in alphabetical order. The price of the supplement is one shilling, post free.

Institute of Cost and Works Accountants

REGIONAL CONFERENCES

The first of this session's series of regional conferences, sponsored by branches of the Institute of Cost and Works Accountants, was held last Saturday at the Adelphi Hotel, Liverpool. Further conferences, now a regular feature of the Institute's activities, will be held at Birmingham on October 13th, London on December 8th, and Newcastle on April 5th, 1952.

At the north-west regional cost conference the Lord Mayor of Liverpool, Alderman Vere E. Cotton, C.B.E., T.D., welcomed delegates, after which consideration was given to a paper 'Stores control in practice', by Mr J. Fewlass, A.C.W.A., A.C.I.S., cost accountant, British Cod Liver Oils (Hull & Grimsby) Ltd. At the afternoon session the conference discussed a paper 'Integration or reconciliation', by Mr A. Marshall, A.C.W.A., cost accountant and secretary, James Laing, Son & Co Ltd. The chairman at the morning session was Mr A. W. Muse, F.C.W.A., F.A.C.C.A., President of the Institute, and in the afternoon Mr F. Leadbetter, F.C.W.A., F.C.I.S., director and secretary, Horrockses Crewdson & Co Ltd.

At the luncheon the guest of honour was Sir Rex Hodges, J.P., general manager and secretary, Mersey Docks and Harbour Board, and among the other distinguished guests were:

The Lord Mayor of Liverpool; Mr K. G. M. Harding, B.A., F.C.A. (*President, the Liverpool Society of Chartered Accountants*); Mr Bertram Nelson, J.P., F.S.A.A. (*Chairman of the Liverpool Chamber of Commerce, Vice-President of the Society of Incorporated Accountants and Auditors*); Mr John Ainsworth, M.B.E., F.I.M.T.A. (*City Treasurer of Liverpool*); Mr H. J. C. Davies, F.C.I.S. (*Chairman, Liverpool and District Branch, Chartered Institute of Secretaries*); Mr S. W. Hanscombe, M.B.E., A.S.A.A. (*President, Liverpool Branch, Society of Incorporated Accountants and Auditors*); and Mr T. E. A. Killip, F.A.C.C.A. (*President, Liverpool Branch, Association of Certified and Corporate Accountants* (*a past President of the Association*)).

The Chartered Accountant Students' Society of London

LECTURES ON AUDITING

A lecture on 'The auditor and the law' by Mr Phineas Quass, Barrister-at-Law, to be given in the Oak Hall of the Institute on Monday, October 8th, at 5.30 p.m., will be the first of the course of lectures, demonstrations and discussions on auditing arranged for the autumn session of the London Students' Society. It will be followed on subsequent Mondays by lectures on 'Investigations and special audits', 'The auditor and his client', 'Parliamentary control of public expenditure', and 'Stock-in-trade in auditing practice'. The lecturers all have practical experience of their subjects at high levels. The object of this course is to provide, not mere text-book knowledge, but real practical experience which will be of much needed help in meeting both the requirements of the practical standard set by the examinations of the Institute, and also the needs of the chartered accountant in his daily work.

COURSE FOR SPEAKERS

The Carr-Saunders Report on Professional Education will be the subject of a debate to open the autumn session of the Course for Speakers for members of the London Students' Society. The report is of special importance to those who are entering, or have recently entered, the profession. The Council of the Institute has issued a booklet setting out its views on the recommendations. The subject is complicated, and the debate should be very helpful in setting out the considerations involved so that both those who speak and those who will listen may be enabled to arrive at an informed opinion on a matter which is of the greatest interest to all members of the profession.

The Course for Speakers which follows this demonstration debate begins with meetings at which short speeches are made on simple motions. Each subsequent meeting is graduated so that students may take the opportunity to acquire and develop the ability to make clear statements of fact and opinion, which is so valuable an attribute to the qualified accountant.

The debate on the Carr-Saunders Report will open in the Oak Hall of the Institute on Tuesday, October 9th, at 5.30 p.m.

JOHN FOORD & COMPANY
56 VICTORIA STREET, LONDON, S.W.1 Telephone: Victoria 2002 (3 lines)
VALUERS AND ASSESSORS
OF WORKS, FACTORIES, Etc.

Liverpool Chartered Accountant Students' Association

In order to consider means of improving facilities for students from Chester and North Wales, a meeting was held at Rhyl on September 24th. It was attended by eighteen members from Chester and North Wales and nineteen from Liverpool.

As a result of the discussion which took place, it was decided to form a Chester and North Wales Branch of the Association. Mr R. T. Smith, F.C.A., of Rhyl, undertook to be the first chairman of the branch. A committee was formed of three representatives from Chester and three from North Wales. Mr M. C. Sunter, one of the Chester representatives, was appointed honorary secretary.

It is proposed to hold the first branch meeting on the evening of Wednesday, October 31st, when two lectures will be given. Any interested students should send their names to Mr M. C. Sunter, c/o Messrs Jones & Hack, 10 Whitefriars, Chester.

The Chartered Institute of Secretaries

WORLD-WIDE JUBILEE

Last Monday members and friends of the Chartered Institute of Secretaries met together all over the world to celebrate the founding of the Institute by Mr Thomas Brown sixty years ago to the very day. In the Mansion House in London, the Lady Mayoress, Lady Lowson, cut the 56-lb. birthday cake made from ingredients contributed by the leading Commonwealth countries; portions were sent to the chairmen of all overseas gatherings.

A dinner held by the London branch of the Institute was attended by some 700 chartered secretaries and their guests and was, in the words of the chairman, Mr Eric C. Chidwick, 'the largest representative gathering of Institute members ever to have been assembled under one roof'. The President of the Institute, Sir Edward Wilshaw, K.C.M.G., read a birthday cablegram which had been sent from London earlier in the day and had travelled round the world gathering the good wishes of the participating countries. He also read the message of greeting which had been recorded by him to be broadcast at the various celebrations being held throughout the United Kingdom, Eire and the Empire. Concluding his message the President said:

> 'Two things emerge from the study of secretaries of the past. One is that efficiency and integrity have enabled them not only to survive change, but to turn it to the advantage of their fellow men. The other is the traditional association of secretaries and kings. In our day this tradition is preserved in the motto of our Institute: "Ever watchful, with the King's help", and in the gracious patronage of His Majesty King George VI which we enjoy today. So, in this Festival of Britain year, from the City of London beside the Thames, I wish each of you a great and adventurous future, and I bid you "Love the brotherhood, fear God, honour the King".'

The dinner was preceded by the parade through the hall, with musical honours, of a stuffed secretary bird, the gift of the South African members, which had been flown to London for the occasion.

Annotated Tax Cases

Part three of Volume XXX of the *Annotated Tax Cases*, edited by Mr Roy Borneman, of Gray's Inn, Barrister-at-Law, is published today and contains reports, with notes on the judgments, of the following cases: *In re Gibbs* (Ch.D.); *In re Beit* (Ch.D.); *Littman v. Barron* (C.A.); *In re Cunliffe-Owen* (Ch.D.); *Birmingham Small Arms Co Ltd v. C.I.R.* (H.L.); *In re Brassey's Resettlement* (C.A.); *In re Payton*, *In re Austin Motor Co Ltd* (C.A.); *Napier v. National Business Agency Ltd* (C.A.); *In re Batley* (C.A.); *Bernard and Shaw Ltd v. Shaw* (K.B.D.).

The annual subscription to the *Annotated Tax Cases* is 30*s* post free, the publishers being Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

Seventy-five Years Ago

FROM *The Accountant* OF OCTOBER 7th, 1876

Excerpt from the opening paragraph of a note entitled

A Commercial View of Bankruptcy Law

We are glad to observe that although the recent abortive Bankruptcy Bill did nothing else, it succeeded in causing a widespread and searching criticism into the general theory and practice of bankruptcy law. Besides the winnowing given to the subject by the Press, private individuals and societies have not been slow in putting forth their views in the same direction. Mr C. R. Trevor, the hon. secretary of the Manchester Institute of Accountants, some time ago prepared a paper (afterwards printed in a pamphlet form) in which he pointed out and criticized the innovations which the new Bill would have brought about had it become law; and if we are rightly informed, the two large accountants' societies which have their headquarters in London have been giving considerable attention to the same subject. All this is very desirable, and the results cannot fail to be valuable; but the work would not be complete had the mercantile community refrained from expressing their opinion on the question of bankruptcy law reform.

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The Accountant

ESTABLISHED 1874

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CANADIAN AUDIT REPORTS

IT is a fact too often forgotten that an expression of opinion, to be of value, must be backed by sound knowledge and sane judgment. This simple principle, the scrupulous observance of which has done much to establish the authority of the accountancy profession, should be constantly in the minds of members who seek further to enhance the dignity of their calling.

An excellent example of this awareness has just come from Canada in the form of the latest bulletin of the Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants.[1] It deals with the auditor's report and its purpose is to recommend a standard form of wording which will not only comply with the requirements of the Companies Act, 1934 (Canada), but also be in accordance with the best current practice in that country, one important feature of which in recent years has been the tendency to give greater consideration to the profit and loss account. Although neither the 1934 Act nor any of the provincial Companies Acts specifically suggests that the auditor should report upon it, many accountants in practice do so. Accordingly, the Committee proposes that the auditor should now always include in his report his opinion of the 'statements of profit and loss and surplus' as well as of the balance sheet.

The full wording of the unqualified report by the auditor to the shareholders of a limited company recommended by the committee is:

> 'I have examined the balance sheet of the........company limited as at........and the statements of profit and loss and surplus for the year ended on that date and have obtained all the information and explanations I have required. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.
>
> 'In my opinion the accompanying balance sheet and statements of profit and loss and surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at........and the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the company.'

The principle implicit in this form, which does not differ greatly from that outlined by the Companies Act, 1948, in this country, is that the auditor should not express an opinion on a set of financial accounts until he has made a sufficiently comprehensive examination of the company's system and records. The nature and extent of this examination will, of course, vary according to circumstances and it is in determining the exact degree of the check required in each case that the skill and judgment of the auditor has fully to be exercised.

[1] 'The Auditor's Report'. Bulletin No. 6 of the Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants, issued September 1951.

CAPITAL PROFITS DIVIDENDS
CAPITAL OR INCOME?

by SPENCER G. MAURICE, Barrister-at-Law

CERTAIN companies which have lost their assets as a result of the process of nationalization have declined to terminate their existence altogether by winding-up, but have instead determined to continue as investment and holding companies. Such a case is that of Thomas Tilling Ltd. As a result of the Transport Act, 1947, the company's considerable interests in passenger road transport and road haulage undertakings were sold to the British Transport Commission. The purchase price was £24,800,000, and was satisfied by the allotment to the company of British Transport 3 per cent Guaranteed Stock, 1968–73, at 101 per cent.

Stockholders were notified of this agreement in a statement issued by the chairman on November 8th, 1948, and later in the statement the chairman said that it was proposed to recommend at a meeting to be convened later that on April 1st, 1949, a capital distribution out of the amount received be made to holders of ordinary stock at the rate of £5 of British Transport 3 per cent Guaranteed Stock in respect of each £1 of stock of the company held. At an extraordinary general meeting of the company on March 17th, 1949, its memorandum of association was altered so that the company became entirely an investment and holding company, and a resolution was passed for the distribution of £20,600,000 British Transport Stock as a special capital profits dividend on the company's ordinary stock, each stockholder on the register on February 21st, 1949, receiving £5 of Transport stock for every £1 of ordinary stock of the company held by him. The dividend was duly paid on April 1st, 1949. The question whether such a distribution of the capital profits of the company was to be treated as capital or income in the hands of the recipients has led to an interesting series of cases.

The Usual Rule

In *R. A. Hill and Others v. Permanent Trustee Company of New South Wales Ltd and Others* ([1930], A.C. 720), Lord Russell of Killowen, delivering the judgment of the Judicial Committee of the Privy Council, pointed out ([1930], A.C. 729), that:

> '... moneys paid in respect of shares in a limited company may be income or corpus of a settled share according to the procedure adopted, i.e., according as the moneys are paid by way of dividend before liquidation or are paid by way of surplus assets in a winding-up'.

Lord Russell of Killowen went on to point out that this state of affairs can only be prevented from working injustice as between tenant for life and remaindermen by special provisions, defining their rights in respect of moneys received from limited companies, being inserted in the trust instrument. His lordship proceeded to enunciate five principles relevant to the position *inter se* of beneficiaries under a trust comprising shares in a company in regard to distributions of moneys made by the company to its shareholders. It is sufficient for the present purpose to refer to the second and third of those principles, which are as follows:

> '(2) A limited company not in liquidation can make no payment by way of return of capital to its shareholders except as a step in an authorized reduction of capital. Any other payment made by it by means of which it parts with moneys to its shareholders must and can only be made by way of dividing profits. Whether the payment is called "dividend" or "bonus", or any other name, it still must remain a payment or division of profits.
>
> '(3) Moneys so paid to a shareholder will (if he be a trustee) belong to the person beneficially entitled to the income of the trust estate. ...'

Possible Jurisdiction to Apportion

In *In re Sechiari, Argenti v. Sechiari* ([1950], 1 All E.R. 417), the first of what may for convenience be called collectively the Tilling cases, Romer, J., applying *Hill v. Permanent Trustee Company of New South Wales*, held that the amount received by the trustees of the testatrix's residuary trust fund as capital profits dividend was to be treated as income, and not as an accretion to the capital of the trust fund. The testatrix had given the fund to her trustees on trust for all her six children (all of whom survived her) in equal shares, and the trustees held each share on trust to pay the income to the child for life with remainder to that child's issue. Romer, J.'s, declaration was accordingly limited to being a declaration on the construction of the will, and in the events which had happened, and the order was made without prejudice to any question

whether, in the circumstances, in the administration of the trust, the Court had, or would exercise, any jurisdiction to apportion the dividend on equitable principles between income and capital.

Possible Reasons for Apportionment

The circumstances of *In re Kleinwort's Settlement Trusts, Westminster Bank Ltd and Others v. Bennett and Others* ([1951], 2 All E.R. 328), were indistinguishable from those in *In re Sechiari*, but Vaisey, J., was called upon to consider, though he did not in the circumstances have to decide, whether the Court had that jurisdiction to apportion which, in *In re Sechiari*, Romer, J., had suggested might exist. Considering this point, Vaisey, J., thought that it might be that that jurisdiction only existed where the trustees had been guilty of a breach of trust. He gave as an example of such a case the purchase by the trustees of the Tilling stock on the eve of or shortly before the resolution of March 17th, 1949, at the instigation of, or expressly with the object of benefiting, a life tenant, or for some other ulterior motive.

It was pointed out during the argument of the case that the trustees might have sold either the Tilling stock *cum* rights, or else the rights alone, in either of which cases the proceeds would have been capital, and it was suggested that the trustees ought to have sought the directions of the Court as to whether they should pursue either of these courses or (as they did) accept the Transport stock for the benefit of income. Vaisey, J., did not, however, consider that the present case was one with special circumstances making such action by the trustees desirable.

Death of Testator before Payment

As has already been stated, the distribution of Transport stock was made to shareholders on the register of the company on February 21st, 1949, though the dividend was not paid until April 1st, 1949. The testator in *In re Winder's Will Trusts; Westminster Bank Ltd v. Fausset and Another* ([1951], 2 All E.R. 362) died between those two dates, namely, on February 27th. Romer, J., had to decide whether the principles which led him to decide *In re Sechiari* in the way in which he did decide it led to a similar conclusion in the present case. The tenant for life was, by the terms of the testator's will, only entitled to the income of his residuary estate, so that whether or not she was entitled to the capital profits dividend depended upon whether it could properly be described as such income.

It was argued for the remainderman that the distribution was made payable in respect of a date or period during the testator's lifetime, although it was not actually paid until after his death, and, accordingly, that what was received must be regarded as income which accrued due before his death and was, in consequence, capital. Furthermore, the stock was paid in respect of a transaction completed before the testator's death. Romer, J., accepted this argument and applied *In re Muirhead; Muirhead v. Hill* ([1916], 2 Ch. 181), where a dividend paid after the death of a tenant for life, but in respect of a period which had determined before her death, was held to be payable wholly to her estate. His lordship also accepted the further argument of counsel for the remainderman that at the testator's death the right to the dividend, if and when it was passed, was a separate asset of his estate. As it was an asset of the estate before the testator's death, it could not, in his lordship's opinion, be said to form part of the income of the residuary estate after his death; on that ground the case was altogether removed from the area which was covered by *In re Sechiari* and the principles which he applied in that case. The right to the payment crystallized prior to the testator's death and that necessarily led to the conclusion that, when the payment was received, it could not form part of the income of the testator's residuary trust fund, but formed part of his capital estate.

The Remaindermen Preferred

Circumstances similar to those which Vaisey, J., envisaged in *In re Kleinwort's Settlement Trusts* existed in *In re Maclaren's Settlement Trusts; Royal Exchange Assurance v. Maclaren and Others* ([1951], 2 All E.R. 414), though the trustees in that case unquestionably acted in good faith. The trustees had, under the settlement and with the consent of the tenant for life, wide powers of investment. Accordingly, on November 20th, 1948, that is, shortly after the chairman of Thomas Tilling Ltd issued the statement referred to above, they proposed to the tenant for life that certain capital moneys should be invested in stock of the company; in so doing they did not contemplate the proposed capital distribution being income in their hands. The tenant for life agreeing, the purchase was duly effected on December 1st following, and in due course the trustees received the Transport stock. Later the trustees sold both the Thomas Tilling stock and the Transport stock, receiving in the aggregate for both holdings less than the amount of capital

originally invested in the Thomas Tilling stock. The proceeds were, at the tenant for life's request, applied (together with other capital moneys) in the purchase of a house as a residence for him. Relying on *In re Sechiari*, the tenant for life claimed that he was entitled to an equitable charge on the house or the proceeds of its sale of an amount equivalent to the proceeds of sale of the Transport stock.

In *In re Maclaren's Settlement Trusts*, Harman, J., was faced with circumstances which were clearly very different from those in *In re Sechiari* (where the Thomas Tilling stock had been acquired a number of years before the capital distribution took place), and it appeared that his lordship would have to decide whether the Court possessed the jurisdiction to apportion to which Romer, J., had adverted in *In re Sechiari*, and, if so, whether in the circumstances of the present case it should be exercised.

In fact, however, Harman, J., was able to decide against the claim of the tenant for life on another ground. He reviewed the circumstances in which the investment had been made, and the subsequent purchase of a residence for the tenant for life. He continued:

> 'In these circumstances, I ask myself what equity there can be in the tenant for life that he should be given a charge on this property. He consented to the whole transaction on the footing that it was a capital transaction, well knowing that the trustees would never have embarked on it if they had appreciated its possible results, and, in my judgment, the short answer is that he has no claim to this charge or to be recouped the value of the transport stock, even though in other circumstances it may be (and I decide nothing about this) that he might properly claim it as income. This rests, not on an estoppel, because the elements of estoppel are not here present, but on the fact that the transaction was in substance the purchase with capital moneys of British Transport stock as a capital investment.' ([1951], 2 All E.R. 417, 418.)

Limitations on the Jurisdiction to Apportion

But although it was not necessary to his decision, Harman, J., nevertheless expressed his view on the equitable jurisdiction of the Court in administration proceedings, and having considered various authorities, came to the conclusion that in special circumstances the jurisdiction to apportion existed, although apparently it was only the exercise of a right to make a more exact distinction of income from capital. Ordinarily, as a rule of convenience, no apportionment would be made, but when this rule would produce a glaring injustice, the Court would cause a more exact calculation to be made, though it did not treat as income that which was capital, or as capital that which was income. A case to which Harman, J., referred and which illustrates the point well is *Lord Londesborough v. Somerville* ((1854), 19 Beav. 295). There the plaintiff was tenant for life of a large sum of consols, which were sold in exercise of a trust to invest in real estate. The plaintiff claimed part of the purchase price of the consols, on the ground that the sale took place just before a dividend was due, and in such a way that he would be deprived of all income over a very considerable period. Sir John Romilly, M.R., decided that it was equitable that the life tenant should receive something to make up for the income which he had lost: the value of the stock was augmented because it was sold *cum* dividend, so that part of the purchase money for the land acquired was paid out of the income of the life tenant.

Harman, J.'s, Conclusion

Considering the dictum of Vaisey, J., in *In re Kleinwort's Settlement Trusts*, that the exercise of a jurisdiction to apportion was really confined to cases of breach of trust, Harman, J., thought that this might well be the answer, and it seemed to his lordship:

> '. . . clear that the Court would never allow the beneficial rights to be altered by a breach of trust, and if the circumstances were such that a purchase by trustees . . . would have been a breach, the Court might well apportion the so-called dividend or allocate it to capital even though in fact the trustees did not realize what they were doing when they did it'. ([1951], 2 All E.R. 420.)

The Tilling cases have served to illustrate that prima facie a capital profits dividend is income in the hands of a trustee to whom it is paid, but that it is within the power of a settlor or testator to decide whether such a payment shall in fact be treated as income or capital. They have also shown that what would normally be income in the hands of a trustee may, in special circumstances, be capital. In none of the four cases was it necessary for the Court to decide whether it had jurisdiction to apportion a payment of this kind between capital and income, but all three judges concerned considered the matter, and it is reasonably clear from their dicta and from the earlier cases to which reference was made that such a jurisdiction does exist, though it is possibly restricted to those cases where a breach of trust has occurred.

NORTH AMERICAN COMMENTARY – XXVIII

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
Professor of Accounting, McGill University, Montreal

Journal of Accountancy, New York, August

Accelerated Amortisation: in Defence Contracts

THE American Institute of Accountants has asked that accelerated amortisation be allowed as a cost in contract pricing, but the Defence Production Administration does not agree, although 'fully cognizant' that this 'is not in accord with generally accepted accounting principles'. The immediate need is to check inflation but, says the Defence Production Administration, such costs may still be recovered in renegotiation under the Renegotiation Act of 1951.

The Auditor and Defence Regulations

What effect, if any, has the multiplicity of regulations such as price control, wages stabilization, etc., on the auditor's responsibility in a normal audit? The editorial visualizes extreme cases of known violations by a client, leading to a likelihood of heavy financial penalties, when the auditor cannot give an unqualified opinion. But, in general, where no evidence of probable violation is found, it can see no reason for extending the scope of examination because of new legal controls.

Accountants' Practice before Federal Agencies

The hard-won agreement between the American Bar Association and the American Institute of Accountants on an amended version of the Administrative Practitioners Bill, now introduced to Congress, seems in some danger of challenge by two other bills. One of these would set up a Commission to formulate rules of practice and procedure before federal agencies. The American Institute of Accountants considers that this would give the Commission, which would consist mainly of lawyers, too broad an authority. The other bill would seem likely, says the editorial, to exclude any non-lawyer from appearing before any administrative agency on behalf of others. It is hoped that the American Bar Association and the American Institute of Accountants will stand shoulder to shoulder in supporting the first bill, since they are well on the way to solving past differences by friendly negotiation.

Trade Union View of Income Determination

Among other points quoted from an article by Mr Solomon Barkin, Director of Research, Textile Workers' Union of America, is one which suggests that payments to entrepreneurial groups, including the remuneration of executive management, are not proper charges against corporation income. Also LIFO, FIFO and standard costs for inventory valuation are all disapproved of, together with such practices as the recognition of income only, when realized, while anticipated losses are fully provided for. The editorial deprecates this tendency towards special-purpose accounts and calls for increased efforts to agree on principles of accounting which result in fair presentation of income from all points of view, with specific interests dealt with in supplementary statements.

Depreciation Provision by the Unit of Production Method

Mr Chas. W. Smith, C.P.A., LL.B., chief, Bureau of Accounts, Finance and Rates, Federal Power Commission, considers that provision for depreciation by the unit of production method has not received the consideration it deserves. He urges that it is the soundest of all in theory as the only one which squares with the matching of costs against revenues. While admitting the practical difficulties he thinks much more accuracy could be achieved by adopting the method in particular cases.

Courses of Study for C.P.A. Certificates

Since the American Institute's recognition, in 1937, of the desirability of a four-year college course in the liberal arts, followed by graduate work in accounting, Mr Harry C. Zug, C.P.A., tells of the trend from specialization. He instances the graduate school course leading to the Master in Professional Accounting at the University of Texas. Speaking of the inability of students to express themselves in good English, he tells how some institutions are grading papers in specialized subjects (1) for evidence of achievement in the specialty, and (2) for effectiveness in English composition.

The Professional Accountant and Small Business

Mr Seth A. Densmore, C.P.A., discusses the varied duties of a certified public accountant in a rural community. He says that the extent of demands on him merely for writing up books may be such that it will pay both his client and himself for him to maintain a book-keeping department as a separate section of his staff. A reasonably competent book-keeper, by no means first-class, would cost at least $35 to $40 per week, while services could be offered through the accountant's staff for from $50 to $100 per month.

Accounting Problems when Currency becomes Valueless

The fantastic accounting problems of Standard Oil Company's Hungarian subsidiary, when the worthless currency was replaced by a new one early in 1947, are well described by Mr Lloyd Paxton, C.P.A., comptroller of the subsidiary at the time. We may well believe he had, as he says, never a dull moment, for the accountant's duties included: (1) reconstruction of records destroyed by war; (2) revaluing the accounts at December 31st, 1945, with the help of index numbers; (3) coping with almost incredible problems of inflation; (4) evaluation of assets and liabilities in the new currency; (5) changing the entire accounting system to a uniform system imposed by the government.

Form of the Income Statement

The Securities and Exchange Commission requires, in the case of companies registering with it, that additions to or deductions from net income shall be made at the bottom of the statement for those special items of profit or loss which Bulletin 35 of the American Institute would put to surplus account (the equivalent of appropriation account). The Committee on Accounting Procedure of the American Institute now states that both forms may be regarded as acceptable. Where the S.E.C.'s form is used the committee stresses the need for the caption of the final figure to be properly descriptive, e.g. 'net income and special items'.

LIFO for ALL Inventories

Mr H. T. McAnley, C.P.A., would have LIFO extended to all inventory valuation because it results in the reporting of profits on a strictly factual basis. The disadvantage of balance sheet understatement of inventory may be overcome by stating the asset on a current basis and setting up a special reserve. Mr McAnley considers that accounting practices which evolved when the dollar was relatively stable and income-tax negligible should be changed today. He was himself responsible, in 1941, for the development of a 'dollar value' method which makes possible the application of LIFO to any type of business, regardless of its inventory complexities. The inventories are thus dealt with in terms of value and it makes no difference whether or not the same quantities of specific items, or even the same items, are in inventory at beginning and end of the year. The basic principle is to express all items in a related group of products in terms of the common unit, 'dollars' of investment at a specific price level. This price level is 'cost' at the beginning of the year of adoption. The method has been accepted in the United States and LIFO may be generally used for income-tax purposes. The one requirement which prevents its adoption by many companies today is that the opening cost values remain a floor for inventory pricing in all future years. An amendment is now proposed in Congress by which, if prices fall below those in a company's LIFO cost base, the base may be adjusted to the ending current year cost or market, for use in that year and future years. Aggregate taxable income would thus be the same as if the change to LIFO had been deferred until the price drop had occurred.

Harvard Business Review, Cambridge, Mass., July

Milestones in Accounting History

In his first Dickinson lecture at Harvard Graduate School of Business Administration, Mr Percival F. Brundage, C.P.A., past president of the American Institute of Accountants, lists the following as important milestones on the path of accounting in the United States during the past fifty years: (1) the merger movement early in the century; (2) the use of accounting regulations by government commissions to accomplish social objectives, beginning in 1907; (3) taxes and cost-plus contracts in World War I, leading to extension and improvement of accounting records and reports, with the beginning of a shift of emphasis from the balance sheet to the income statement; (4) adoption of new standards of accounting disclosure by the New York Stock Exchange in 1932, developed by the Securities Acts; (5) World War II emphasis on accounting – in research bulletins, price fixing, cost inspection, renegotiation; (6) post-war developments such as the vast pensions agreements by which com-

panies have incurred enormous obligations by a stroke of the pen.

The Canadian Chartered Accountant, Toronto, July

Division of Tax Responsibility

In Canada, tax policy is formulated by the Minister of Finance, while responsibility for collection lies with the Minister of National Revenue. Policy-making thus tends to be divorced from proper knowledge of its impact on the taxpayer, and the editorial quotes instances showing the disadvantages of this arrangement. It asks whether the time has not come for giving both responsibilities to one Minister.

Costing Techniques as an Aid to Management

Consulting work in connexion with costing techniques may be an important part of a chartered accountant's duties in Canada. Mr A. E. Bishop, C.A., discusses the use of techniques available for the aid of small- and medium-size businesses. Thus production may be expressed in 'minutes per unit of production' so that a report to management may measure 'hours produced' against actual hours spent on productive work, to reveal the efficiency percentage of operators. Since modern developments tend to classify a larger proportion of labour as indirect, Mr Bishop suggests that labour identifiable to a particular department but not assignable to a unit of production should be separated from overhead and, in effect, dealt with as a separate element of cost. Perhaps management should have reports separate from overhead reports, showing how cost objectives for indirect labour have been met. The costing system advocated uses standard summaries and reports variations on standard columnar forms, without the use of ledgers and journals.

AUDITING–II

by W. H. LAWSON, C.B.E., B.A., F.C.A.

Depreciation

UNTIL the passing of the Companies Act, 1948, auditors were inclined to accept any charge for depreciation provided it was adequate and was based on a recognized method consistently applied. Up to that time the emphasis was upon the adequacy of the depreciation charge but, under the Companies Act, 1948, it is necessary also to ensure that it is not in excess of what is reasonably required.

The depreciation charge involves, of necessity, an element of estimation in that the life of the asset cannot be known in advance. The question arises as to the auditor's duty when estimates are not borne out by subsequent events. If the life of the asset has been over-estimated it is clear that the rate of depreciation should be increased and it would seem desirable, if not essential, to give an indication of the change in the year when it is made.

When the life of the asset has been under-estimated, however, the position is more difficult. The Eighth Schedule to the Companies Act, 1948, specifically provides that no adjustment need be made in the balance sheet in respect of excessive amounts written off fixed assets before the commencement of the Act. This exception does not, however, apply to amounts retained in a separate depreciation account. Moreover, as the years pass the position will arise where amounts set aside or written off since the passing of the Act will require some adjustment as being in excess of what is reasonably necessary. In certain cases an adjustment may be called for but the fact that plant is still in use after having been fully depreciated is not necessarily proof that the amount provided for depreciation has been excessive. Such plant will often be uneconomic in operation, expensive in repair and poorer in performance than equivalent new plant available on the market. It may well be, therefore, that the director's original estimate of the life of the asset was sound and that financial or other special circumstances have resulted in uneconomic plant being retained in use for a longer period than was expected. In such cases it would seem unnecessary to make any adjustment in respect of depreciation already charged on such plant.

An even greater difficulty in presentation of the 'true and fair view' arises from the general use of two entirely different methods of calculating depreciation, namely, the straight-line method and the reducing balance method. In the early years of the life of an asset the rate of depreciation required by the reducing balance method may be double the rate required by the straight-line method. The Institute Recommendation No. IX advised that, in general, the straight-line method should be used, but this recommendation has not been universally followed and it is unlikely that it will be so long as the reducing balance method continues to be generally employed for tax purposes.

In these circumstances it is, I think, for consideration whether, as a matter of best practice, the accounts should disclose which of these two methods

Conclusion of an address delivered on September 11th, 1951, at the summer course of The Institute of Chartered Accountants, held at Christ Church, Oxford.

has been used. In heavy industries the amounts involved are large and the situation arises where, after charging depreciation by the reducing balance method, the profit is widely different from that which would be shown by charging depreciation by the straight-line method. Yet both methods are accepted by auditors for the purpose of showing the true and fair view of the profit for the year and a person making a comparison of the accounts of one concern with those of another may not be aware of this essential difference.

Points for discussion

(1) *Would there be any advantage in trying to agree upon a standard method of calculating depreciation: (a) for industry in general; and (b) for particular industries?*

(2) *If so, what steps should be taken to this end?*

(3) *Would there be any advantage in stating in a note on the accounts the method which has been adopted for charging depreciation?*

Directors' Benefits in Kind

In the Institute booklet on the Companies Act issued in May 1948, the following information is given with regard to the auditor's duty in connexion with directors' benefits otherwise than in cash (section references are to the 1947 Act and not to the consolidating Companies Act, 1948, enacted subsequent to the issue of the Institute booklet):

'Section 38 (2) provides that a director's emoluments include "the estimated money value of any other benefits received by him otherwise than in cash". The auditors may be in difficulty in verifying the estimated money value of such benefits and in deciding as to whose estimation shall be accepted, having regard particularly to the special duty of the auditor under Section 38 (8). Among the major types of benefits other than in cash which might be obtained by a director are:

(i) The free use of living accommodation (possibly expensive flats or hotel accommodation).
(ii) The use of motor-cars and the payment of all expenses in connexion therewith.
(iii) Goods and services of the kind supplied by the company, obtained without charge or at wholesale or other reduced prices.
(iv) Regular luncheons.

'At the time of preparation of this booklet the 1948 Budget resolutions have been passed in the House of Commons and attention is drawn to Resolution No. 29, which reads as follows:

"That where –

(*a*) a body corporate, unincorporated society or other body makes any payment in respect of expenses to or provides any money or any benefits or facilities in kind for, any director, any person taking part in the management of its affairs or any employee; or

(*b*) an individual or partnership carrying on a trade, profession or vocation makes any payment in respect of expenses to, or provides any money or any benefits or facilities in kind for, any employee,

the payment, money, benefits or facilities shall, in such manner and to such extent as may be provided by any Act of the present Session for giving effect to this resolution, be taken into account for income-tax purposes as perquisites of the office or employment of the director, person taking part as aforesaid or employee."

'If this resolution is put into operation by the Finance Act, 1948, the new position for taxation purposes will provide guidance to directors and auditors in deciding on the benefits which should be included for the purpose of complying for the Companies Act, 1947.

Opinion of Counsel

'In our opinion it is the duty of the auditor to make inquiry from the company and from the directors in order that he may verify the benefits obtained by the directors otherwise than in cash. This duty is imposed by the Second Schedule which requires an auditor to report whether in his opinion and to the best of his information and according to the explanations given to him the accounts give the information required by the Acts. Section 38 (2) requires the aggregate of the directors' emoluments to be shown in the accounts or in a statement annexed thereto, and subsection (8) imposes a direct obligation on the auditor to supplement the information in his report, if it is deficient. The auditor must assess the value of the benefits to the best of his ability and satisfy himself that the value of benefits has been shown at a fair figure.

'We do not think that an auditor could place himself in a position to perform his duties unless he obtained an assurance from the directors that no benefits had been received otherwise than in cash or alternatively a statement of such benefits.

'In our opinion the fact that an independent quorum of the board passes a resolution to the effect that some particular expense is incurred for the benefit of the company and not for the benefit of a director is in no way conclusive of the facts. The two things are not necessarily in opposition. An expense although incurred for the benefit of the company may none the less benefit a director, e.g. the managing director of a hotel lives with his family in a flat in the hotel free of charge. This would no doubt be a benefit to the company but it is also a benefit to the director and its value would be an emolument.'

Recommendation of the Council

'Where the notice to be given by each director under Section 41 (1) is not given in writing in the form of a statement of pensions, compensation and emoluments, including all benefits received otherwise than in cash, approved by the board and recorded in the minutes, the auditor should require (under clause 162 (3) of the consolidating Companies Bill, 1948) such a statement in writing approved by resolution of the board.'

In practice it has been my experience that directors are usually willing to provide the secretary of the company with a written statement of their emoluments under different headings, including benefits otherwise than in cash, and it is not often necessary to invoke Section 162 (3) of the Companies Act, 1948, which reads as follows:

'Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the officers of the company such information and explanation as he thinks necessary for the performance of the duties of the auditors.'

Nevertheless, this subject is not altogether free from difficulty and it may be that some members of the course will have points which they wish to raise for discussion in this connexion.

Points for discussion

Have members of the course experienced any special difficulties in ascertaining whether benefits in kind have been received by directors and in deciding what constitutes a benefit in kind?

Certificates from the Management

For many years past it has been the established practice for the auditor to require certificates from responsible officials of the company with regard to (*a*) the value of debts; (*b*) outstanding liabilities; and (*c*) the existence and value of stock-in-trade. The Companies Act, 1948, places upon the directors certain specific responsibilities which have a bearing upon this question. Paragraph 11 (7) of the Eighth Schedule provides that a statement shall be made by way of a note or of a report annexed to the accounts:

'*if in the opinion of the directors* any of the current assets have not a value on realization in the ordinary course of the company's business, at least equal to the amount at which they are stated, the fact that the directors are of that opinion'.

Paragraph 27 (2) of the Eighth Schedule provides that where:

'(*a*) any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, not being an amount written off in relation to fixed assets before the commencement of this Act; or

'(*b*) any amount retained by way of providing for any known liability';

is in excess of that which *in the opinion of the directors* is reasonably necessary for the purpose, the excess shall be treated as a reserve and not as a provision.

In view of the responsibility which rests upon the directors under these provisions of the Companies Act above referred to, some auditors find it desirable to draw the attention of the directors to them by requiring a minute to be passed somewhat in the following general terms:

'In accordance with the provisions of the Eighth Schedule to the Companies Act, 1948, the board, after due consideration, are of the opinion that, as at....19....

(1) the current assets of the company would have a value, upon realization in the ordinary course of the company's business, at least equal to the amount at which each is stated in the balance sheet;

(2) the amounts retained by way of providing for known liabilities and losses, including losses on current assets, are adequate and are not in excess of what are reasonably necessary for the purpose;

(3) the amounts written off fixed assets or retained by way of providing for depreciation and amortisation of fixed assets are adequate and are not in excess of what are reasonably necessary for the purpose.'

The question arises as to whether, if a minute of this nature is passed by the board, it is necessary for the auditor to require, in addition, the certificates which were previously obtained as regards debts, liabilities and stocks. I would suggest, for consideration, that it is not necessary to obtain any certificate with regard to the value of debts, except possibly in respect of a specific debt of which some director or official of the company might have special information or knowledge. Even in such cases it would seem to be sufficient to obtain a memorandum or statement from the official concerned with regard to the facts in sufficient detail to enable the auditor to form his own opinion as to the value of the debt.

The position as regards liabilities is different. It seems desirable in every case that the auditor should have, in addition to the board minute above referred to, a specific statement signed usually by the managing director and accountant, as being the officials in the best position to know, that all known liabilities of the company have been included in the books submitted for audit. It is also desirable that such a certificate should indicate the amount of outstanding capital commitments and of any contingent liabilities other than those recorded in the books. These are matters on which it is extremely difficult, if not impossible, for the auditor to be completely satisfied except on the basis of information supplied to him and it is sometimes found that the discussion of a certificate of this kind with the managing director recalls to his mind commitments of which it is necessary for the auditor to have knowledge. In cases where there are a large number of forward purchases and sales contracts, it is usual for the certificate to indicate that these are all in the normal course of business and that no losses are expected to arise therefrom, though this is a matter on which the auditor, with the particulars available, should be able to form his own judgment.

As regards stocks, it would also seem desirable that the officials of the company directly responsible for the physical inventory and valuation of the stock should signify their written agreement with the figures taken into the accounts.

Nevertheless, it must be emphasized as regards all certificates and minutes by the board that, in themselves, these do not relieve the auditor of responsibility for carrying out such work as is necessary to enable him to be satisfied in the exercise of his personal judgment.

Point for discussion

(*a*) *Is it desirable in all cases to ~~obtain resolutions~~ of the board on the lines set out on page 333. If not, in what cases?*

(*b*) *Is it necessary to obtain, in addition or as an alternative, certificates regarding:*

(*i*) *bad debts;*

(*ii*) *liabilities;*

(*iii*) *stocks.*

III. THE AUDIT REPORT

The Ninth Schedule to the Companies Act specifies matters which have to be expressly stated in the auditor's report and this has rendered obsolete the short form of auditor's report which had been in general use for many years. Moreover, the Ninth Schedule requires that, in the case of a holding company, separate reports shall be given for the holding company and for the group respectively. Group accounts are, however, an amplification of the holding company's accounts and are prepared for the benefit of its shareholders. The object of group accounts is thus to assist in showing the position of the holding company and not to show by itself the position of a group of companies which has no legal existence. The development of group accounts has been due to the belief that the accounts of the holding company alone cannot provide its shareholders with a sufficiently full statement of the assets and liabilities underlying their shareholdings.

Another unsatisfactory feature of the Ninth Schedule is that it necessitates an unduly lengthy audit report with the grave defect that important qualifications about things which are wrong can be obscured by the repetition of things which are right.

With these considerations in mind the Council of the Institute has in recent months had this subject under review and as a result has recommended to the Board of Trade that the Ninth Schedule to the Companies Act should be amended with a view to providing (*a*) that the auditor shall report on many of the matters referred to in the present Ninth Schedule only if he is *not* satisfied with regard thereto; and (*b*) that the report on the group accounts shall be combined with the report on the holding company's accounts. The specific recommendations of the Council (subject to final legal drafting) are that the Ninth Schedule should read as under:

'1. In their report the auditors shall state:

(*a*) Whether in their opinion the balance sheet and profit and loss account of the company or, in the case of a holding company submitting group accounts, the said accounts of the company and the group accounts, are properly drawn up in accordance with the provisions of this Act so as to give a true and fair view of the state of the company's affairs at the date of its balance sheet and of its profit or loss for its financial year ended on that date; or

(*b*) In the case of a company entitled to the benefit of Part III of the Eighth Schedule to this Act, whether in their opinion the balance sheet and profit and loss account of the company or, in the case of a holding company submitting group accounts, the said accounts of the company and the group accounts, are properly drawn up so as to disclose the state of the company's affairs at the date of its balance sheet and its profit or loss for its financial year ended on that date, so far as is required by the provisions of this Act applicable to the class of company concerned.

'2. The auditors' report shall contain statements which in their opinion are necessary in any of the following circumstances if:

(*a*) They have not obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit.

(*b*) So far as appears from their examination, proper books of account have not been kept by the company.

(*c*) Proper returns adequate for the purposes of their audit have not been received from branches not visited by them.

(*d*) The company's balance sheet and profit and loss account are not in agreement with the books of account and returns from branches.'

If and when these amendments become law, we should be able to revert to a shorter form of audit report.

Whatever the form of this new audit report, it should, I submit, be borne in mind that where it is necessary for the auditor to make a qualification, the wording should be unambiguous and concise, and should stand out with proper emphasis. Such vague phrases as 'subject to the value of investments' are no longer appropriate. The auditor must state his views in positive terms. It is sometimes preferable to explain the situation at length in a note on the accounts and for the auditor to qualify his report by indicating that the true and fair view is subject to the note.

Point for discussion

Is the proposed amendment of the Ninth Schedule welcomed?

IV. QUESTIONS AFFECTING THE INDEPENDENCE OF THE AUDITOR

Partner of a Director as Auditor

An auditor has frequently to consider whether a particular course of conduct is likely to affect his independence of outlook. It is necessary for him to consider not only whether such action may affect his judgment, but whether others may feel that it is likely to do so.

Until the passing of the Companies Act, 1928 (consolidated in the 1929 Act), it was permissible for a partner or employee of a director to act as an auditor of the company. The 1928 Act limited this privilege to the auditor of a private company and the 1948 Act went one step further in providing that only in the case of an exempt private company should a partner or employee of a director be permitted to act as the auditor.

There is little doubt that, in the case of a multitude

of small companies, it is a convenience to the shareholders to have one firm of accountants responsible for the financial direction of the company and its audit. A rigid rule that a partner or employee of a director could not act as the auditor might involve unnecessary trouble and expense in respect of these small private undertakings. Nevertheless, there is a substantial number of quite large and active exempt private companies with up to fifty shareholders and with capital running into hundreds of thousands of pounds. In such cases, it seems questionable whether a director should permit his partner or employee to act as auditor of the company concerned. Even in the most harmonious boards there must, from time to time, be differences of opinion from which the auditor should stand aloof. Nor can it be right that the auditor should become involved in differences of opinion which may arise between the shareholders and the board of directors.

It is questionable how far it would be practicable to draw a line between the different types of exempt private companies and it may be that there is no half-way house between retaining this privilege for all exempt private companies and withdrawing it altogether. Pending any change in the law, there is need for the exercise of judgment by an accountant as to the circumstances in which he will permit his partner or employee to act as auditor of an exempt private company of which he is a director. In this respect best practice should be ahead of the law.

Point for discussion

Would there be any advantage in bringing about a change in the present position by which the partner of a director may act as auditor of an exempt private company?

Secretary of the Company

The Companies Act, 1948, provides that no partner of an officer of the company shall act as auditor of the company, except in the case of an exempt private company. It follows from this that a firm of accountants cannot be auditors of a public company of which one of the partners is secretary, nor can a firm of accountants be secretaries of a public company if one of the partners is auditor. There is, however, according to the legal advice obtained by the Council in 1948, nothing in the Act to prevent an employee of the auditor acting as secretary of a public company or a non-exempt private company. Whether this is desirable is another question.

Point for discussion

Is it desirable for an employee of the auditor to act as secretary of a company even if it is a public company?

Auditor as Shareholder

In the U.S.A. an auditor of a company which is listed on the Stock Exchange may not hold shares in the company. It may seem strange to our American friends that no similar restriction is imposed in this country but, in fact, the greater freedom allowed here does not seem to be abused. There are, however, circumstances in which it would seem to be undesirable for an auditor to hold shares in the company which he audits, particularly in the case of large public companies with an active share market. The directors and officials of the company, however great their confidence in the auditor, may well have some slight mental reservation in imparting information or asking advice upon a matter which might affect the value of the shares if they know that the auditor is a shareholder. Most of us would prefer not to place ourselves in that position.

In the case of a private company or a public company whose shares are unquoted, the position is rather different. Quite frequently the auditor, through family connexions, is a shareholder in the company and, in other cases, he may have been instrumental in finding capital for the business and may have invested some of his own money, along with that of his friends. Such holdings are usually considered by all concerned as permanent investments and the same mental reservations should not be present as when quoted shares are held.

There is, however, a danger, even in these cases, that the auditor may become involved in a dispute between shareholders. If the votes attaching to his shares are an important factor, he may be placed in an embarrassing position but he can usually avoid this by refraining from voting or, in an extreme case, by disposing of his shares or resigning from the audit.

Point for discussion

Should an auditor refrain from holding shares in:
- (*a*) *a public company with quoted shares?*
- (*b*) *any company?*

Participation in the Management

In small businesses the auditor is often the counsellor and friend of all concerned, and if care is not exercised it is easy for him to drift into the position of taking part in the day-to-day management of the business. This is clearly undesirable and might involve the auditor in responsibilities which he should not assume.

Nevertheless, it is not always easy to define exactly what constitutes participation in the management of the business. As an example, it is customary, in small businesses, for the auditor to write up some of the principal books of account and there would seem to be no objection to this. It would, however, probably be undesirable for the auditor to pay the wages.

Point for discussion

Is it proper for an auditor to:
- (*a*) *pay wages?*
- (*b*) *hold a power of attorney for a director who is temporarily abroad?*
- (*c*) *arrange the company's insurance and receive a commission from the insurance company?*

V. RELATIONSHIP OF AUDITOR AND CLIENT

Attendance at General Meetings

The auditor has a statutory right to attend the annual general meeting of shareholders and, except in cases where the general meeting is known in advance to be a mere formality, it would seem desirable, in all cases, for him to attend. As the auditor is appointed by the shareholders, ordinary courtesy would seem to demand his presence even if it is unlikely that points will arise upon which he will have to give any explanation, either to the board or direct to the shareholders.

Attendance at Board Meetings

It is often desirable for the auditor to attend the board meeting when the annual accounts of the company are under consideration, though he has no statutory right to do so. The accounts will, of course, have been discussed in detail before the board meeting with the chairman, managing director or financial director and it is sometimes considered unnecessary that the auditor should attend board meetings. Nevertheless, it seems to me desirable that, whenever possible, the auditor should be present, at least for a few minutes, in order to give other directors the opportunity of asking him questions if they wish to do so.

Point for discussion

Should there be a statutory right for the auditor to attend the board meeting when the annual accounts are under consideration?

Facilitation of the Audit by the Accountant of the Company

As this is a course for non-practising as well as practising members, it may be appropriate to consider the ways in which the company's officials and, in particular, the chief accountant, can, in the opinion of a practising accountant, facilitate the work of the audit. Much time can be saved by thoughtful preparation for the audit in such matters as the following:

(1) The maintenance of an effective system of internal check and the preparation of a memorandum setting out the details of this system.

(2) The production of accounts (even if only provisional) at the commencement of or at an early stage in the audit.

(3) The preparation of detailed schedules showing the make-up of assets and liabilities and the major items of the profit and loss account with supplementary schedules showing the principal movements on the accounts where appropriate. It is useful for references to be made in these schedules to the sources of information.

(4) The keeping of an up-to-date survey of sales ledger balances so that, at the year end, the make-up of the outstanding balances is known and long outstanding items have already been considered.

(5) The verification of creditors' statements and their reconciliation with the accounts in the books.

(6) The efficient filing of vouchers, particularly for journal entries. If the journal entries are not supported by vouchers the auditor has to spend much time asking explanations from officials of the company and their secretaries and seeking such documentary evidence as he imagines must be in existence.

(7) The maintenance of an efficient costing system incorporated in or reconciled with the financial books.

(8) Providing a detailed stock valuation as early as possible. Sometimes the auditor is asked to accept the stock valuation without adequate time to check it. It is a great help if the auditor is provided with a copy of the instructions issued for stocktaking and with a written explanation of the basis used for the stock valuation.

(9) Providing the auditor with a suitable room for his work with a key to the door or a lock-up cupboard. It is wrong for the auditor to have to work in the same room as members of the staff of the business.

(10) Facilitating the use by the auditor of his own forms of request for confirmation of balances from bankers and others.

(11) Giving the auditor, at an early date and before submission to the board of the company, a time-table of the important dates, such as those for the board meeting to approve the accounts and the mailing of notices for the annual general meeting.

(12) By seeing that, wherever possible, the auditor has the opportunity of examining the printed proofs of the accounts before they are sent to shareholders. It can be disconcerting for the auditor to find his name on accounts sent to shareholders which, owing to printers' errors are, in some minor respect, different from those which he has signed.

These twelve points deal mainly with routine matters but I have in mind that, in the evolution of future audit practice, much must depend upon ever-increasing collaboration between accountants who are in practice and those who are in industry. With the growth of large-scale undertakings and of mechanized accounting the auditor is becoming increasingly dependent upon the system of control exercised by the company itself over its day-to-day transactions. In so far as this tends to relieve the auditor of much routine checking, it is an advantage which should make for more efficient and useful audits.

The problems which this new situation create, and indeed many of the other problems to which I have referred in this paper, can only be worked out satis-

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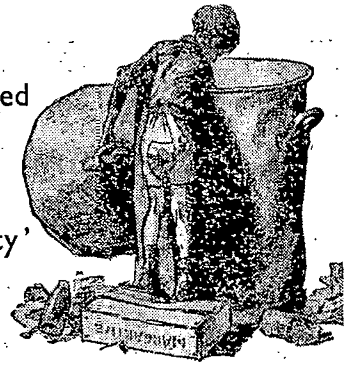

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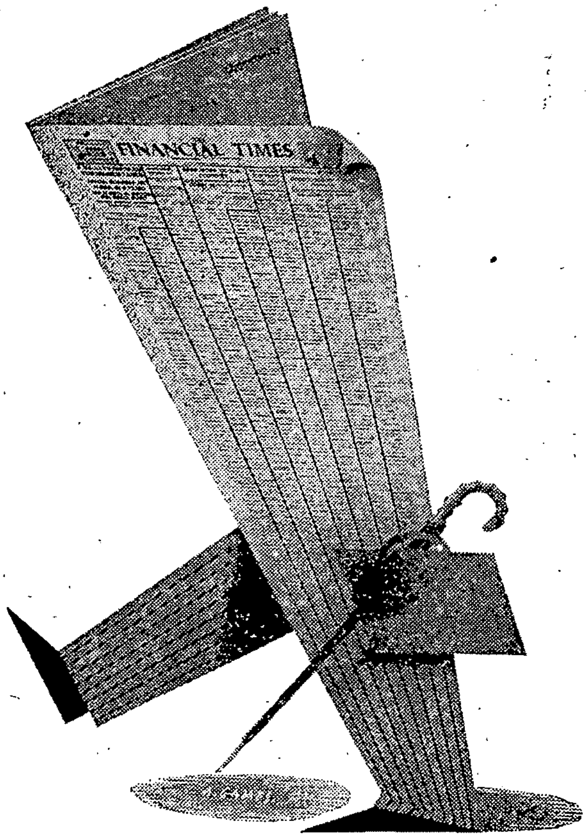

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factorily with the active support of accountants in industry. In submitting to you, therefore, my last point for discussion, I should like to include the whole field of collaboration between accountants in industry and those in practice, as well as the twelve specific points to which I have referred.

Point for discussion

What suggestions can be made for the collaboration between accountants in practice and those in industry and, what are the views of the course as to the twelve points mentioned above and any amendment thereof? (*Concluded.*)

WEEKLY NOTES

The International Congress, 1952

We offer our congratulations to Sir Harold Gibson Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., who has been appointed President of The Sixth International Congress on Accounting, which is to be held in London in June 1952. Sir Harold, whose lectures and writings are well known to our readers, is a member of the Council of The Institute of Chartered Accountants, of which he was President for the year 1945–46; he is a partner in the firm of Peat, Marwick, Mitchell & Co. A member of the Air Council from 1939 to 1946, Sir Harold has been a member of numerous government boards and committees: he was chairman and deputy chairman of the British Overseas Airways Corporation from 1943 to 1948, and a member of the tribunal on assessment of compensation to colliery owners in 1946.

Readers will recall that with our issue of January 20th last we had pleasure in presenting them with a reproduction in colours of the portrait of Sir Harold by Mr Frank O. Salisbury, C.V.O., subscribed for by members of the Council of the Institute and presented to him at the meeting of the Council held on July 5th, 1950.

We also offer our congratulations to Mr Charles Percival Barrowcliff, F.S.A.A., President of the Society of Incorporated Accountants and Auditors, who has been appointed Vice-President of the Congress. He is the senior partner in the firm of C. Percy Barrowcliff & Co, Incorporated Accountants, of Middlesbrough, Newcastle and Leeds. A keen cricketer, Mr Barrowcliff has gained county honours in Durham.

The Institute's Autumnal Meeting

The twentieth autumnal meeting of the Institute officially finished in Torquay today. In our next issue we hope to publish a full description of the proceedings, with photographs, and in later issues to reproduce the papers read during the meeting.

Half-year's Balance of Payments

While the third quarter's gold and dollar reserves figures earned most of the notoriety last week, the half-year's balance of payments statistics to end-June which were published almost immediately afterwards are hardly less significant. They reflect in an analysed form the sorry tale which the last three quarters' figures have summarized in spring, summer and autumn.

The White Paper published last week on the balance of payments shows that this country experienced a deficit for the first time since 1949. A table analysing the position is reproduced below.

(Millions of £s)

	1951 1st half	1950 1st half	Year 1950	Year 1949
Imports:				
Food	608	519	974	909
Raw materials	745	431	960	690
Petroleum ..	90	78	149	121
Total Imports ..	1,643	1,165	2,382	1,973
Exports and Re-exports ..	1,305	1,040	2,223	1,822
Visible Balance ..	— 338	— 125	— 159	— 151
Invisible Payments	— 305	— 261	— 540	— 535
Invisible Receipts:				
Shipping ..	+ 195	+ 149	+ 314	+ 273
Interest, profits, dividends ..	+ 135	+ 104	+ 237	+ 189
Other	+ 191	+ 175	+ 369	+ 245
Total Invisible Receipts	+ 521	+ 428	+ 920	+ 707
'Invisible' Balance	+ 216	+ 167	+ 380	+ 172
Total Current Balance	— 122	+ 42	+ 221	+ 21

These figures have two points of particular interest. First, they show how the price of imports has affected the size of the import bill. It was nearly £500 million higher than in the first half of last year. Second, there was a marked and encouraging increase in the net balance of the invisible items.

A deficit of £122 million at the end of June augurs ill for the rest of the year. It is already known that the large increase in the visible trade gap (as shown by the monthly trade returns) did not widen alarmingly till after June. Further, the loss of Persian oil will be increasingly felt for some time, at least during the second quarter of this year. It is most unlikely, therefore, that the first half-year's deficit will be contained at that level in the second half, despite a possible slight easing of the import bill. There is every possibility that the year's deficit will in consequence exceed £300 million by a noticeable margin.

Gold Reserve Drops

The gold and dollar reserve statistics for the third quarter of this year have turned out to be even worse than was expected. The sterling area's gold and

dollar deficit for the period was $638 million and the fall in the country's reserves was $598 million. A table setting out the comparative figures over the last three years is set out below.

	Gold and $ surplus	Marshall aid etc.	Change in gold reserves	Gold reserves end of year
1951:				
3rd quarter ..	— 638	+ 40	— 598	3,269
2nd quarter ..	+ 54	+ 55	+ 109	3,867
1st quarter ..	+ 360	+ 98	+ 458	3,758
1950:				
4th quarter ..	+ 398	+ 145	+ 543	3,300
3rd quarter ..	+ 187	+ 147	+ 334	2,756
2nd quarter ..	+ 180	+ 258	+ 438	2,422
1st quarter ..	+ 40	+ 256	+ 296	1,984
1949:				
4th quarter ..	— 31	+ 294	+ 263	1,688
3rd quarter ..	— 539	+ 313	— 226	1,425
2nd quarter ..	— 631	+ 370	— 261	1,651
1st quarter ..	— 330	+ 386	+ 56	1,912

Two considerations are prompted by the figures. First is the suddenness and the severity of the fall in the reserves. Second is the fact that owing to the better position of the reserve at the end of the previous period compared with the similar drop which took place immediately prior to devaluation in 1949, it is possible to take time to consider remedial measures. Calculated steps are necessary to deal with a most dangerous situation, but there is no need at the moment to improvise ourselves out of an immediate crisis.

There is no doubt that the 'dollar problem' is back with all its old virulence but the special circumstances suggest that the position may not be quite as bad as the figures suggest – though it is bad enough. Crises in this country's balance of payments usually occur at this time of the year for this is the season when the payments position is at its most severe. At the same time, receipts tend to be low from sterling area commodity exports. Two other factors pulling in the same direction as the seasonal one have also to be taken into account this year. The first is the fact that this country has had to pay back gold to the European Payments Union during the third quarter (this is of course one of the aspects of the weakness of this country's exchange position at the present time). The other factor is that there is evidence that United States and Canadian balances in this country have been deliberately reduced during this quarter below the customary level.

The Regional Problem

Although the half-year's deficit was largely incurred with the dollar area in as much as £109 million of the £122 million was incurred in that area, the previous periods' useful surpluses were lost by a dramatic change of fortune in trade with O.E.E.C. countries and with the rest of the sterling area. The state of affairs with O.E.E.C. countries has been clear from the statistical returns of the E.P.U. which have been commented upon in these notes in recent weeks. The growing liabilities of this country with the rest of the sterling area have also been known for some time. Statistical corroboration of these trends has now come out in the half-year's figures.

Compared with the first half of 1950, the balance with the members of O.E.E.C. changed from + £53 million to – £26 million. The balance with the sterling area fell from + £83 million to + £46 million. There were also heavy capital as opposed to current transactions with some parts of the sterling area. The result of these changes has been that this country lost gold to E.P.U. and has heavily increased its liabilities to the rest of the sterling area. Over the six months under review this country's total sterling liabilities went up from £3,743 million to £4,168 million and most of this increase was with the rest of the sterling area.

The half-year's figures show what has been gradually becoming clear for some months; that the pound has a world as well as a dollar problem to face.

Copper and Zinc Allocations

An international allocation scheme for zinc and copper in the fourth quarter of this year has been agreed in Washington. This has been done by a committee of the International Materials Conference.

The largest allocation goes to the United States and the second largest to this country. The principle employed was for defence needs to be met in full and the balance of supplies was divided among the various countries according to their consumption last year. The two chief difficulties were to persuade Chile to come into the arrangement and accept an international scheme for copper at a time when that country considered that its best interests were served by maintaining a free market. On the demand side, a problem was encountered with Belgium which claimed a larger allocation than it received since it expected to export refined zinc. Both difficulties were overcome in the end.

This agreement is a useful instance of international collaboration and goes a long way to vindicate the arguments for maintaining negotiating machinery to meet such circumstances as the present world shortage of metals. The copper and zinc scheme will go some way to offset the less favourable impression of its usefulness given by the International Materials Conference in its recent failure to achieve a wool allocation scheme.

Liberal Party President-Elect

Mr Lawrence W. Robson, F.C.A., F.C.W.A., who is a prospective Liberal candidate for Banbury, is to be nominated by the Liberal Party Executive as President-elect at the Party's next assembly after the General Election. Mr Robson is a member of the Council of the Institute and immediate past president of the Institute of Cost and Works Accountants.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

A Few Pitfalls of Estate Duty

SIR, – May I refer to an article of mine on the above subject, published in your issue dated December 2nd, 1950, at page 565, and to two letters published in your issues dated December 16th, 1950, at page 621, and January 6th, 1951, at page 19, which raised a question with regard to it?

In my article I expressed the view that where, more than five years before his death, a deceased made a gift of a fully-paid policy on his own life, estate duty could be claimed on the policy moneys under Section 2 (1) (*d*) of the Finance Act, 1894.

Your correspondents questioned this view – partly on the basis of a passage in *Green on Death Duties* (2nd edition, p. 100) stating that it was not the official practice of the Estate Duty Office to claim in such circumstances. At the time I could do no more than reiterate my own opinion, but since then the question has been discussed in the Court of Appeal in the case of *Re D'Avigdor-Goldsmid* ([1951] 2 All E.R. 543).

In that case, counsel for the Crown went so far as to concede that the above official practice did not accord with the law. While not giving a decision on this particular point, which did not arise directly in that case, the Court said (at page 562):

'. . . if a policy has been provided by the deceased and has been so disposed of that on his death the moneys which then became payable under it are payable to or for the benefit of some other person or persons, whether that result is achieved through the medium of a trust created in the lifetime of the deceased or by means of an assignment in his lifetime of the legal as well as the beneficial interest in the policy to such other person or persons, all the conditions of liability under Section 2 (1) (*d*) are satisfied.'

I do not know whether the official practice will now be changed or whether it will be continued as a concession.

Yours faithfully,

London, WC2. G. A. RINK.

Capital Reserves

SIR, – In a number of cases recently, we have found that the deferred repairs executed have been sufficient to cancel the excess profits tax post-war refund previously credited to a suspense account under the heading of capital reserves. What is the correct accounting procedure to eliminate this capital reserve from the balance sheet? Yours faithfully,

A.

Audit Certificate

SIR, – At the concluding meeting of B group, on the last day of the summer course of the Institute at Christ Church, Oxford, the 'beer steward' presented a statement of account of the 'beer fund'. The honorary auditor then proceeded to read his audit report which was as follows:

'I have examined the accounts of B group beer fund and have obtained all the information and explanations which I expected. Proper books of accounts have not been kept, and the above accounts are in agreement therewith. If everyone else is satisfied, I am.'

Yours faithfully,

Norwich. A. S. H. DICKER.

Measurement of Profit

SIR, – There are several ways of measuring the effectiveness of a business undertaking and probably the most reliable method for general purposes is to calculate the percentage of net profit earned to the average capital employed. One method, however, can be most misleading and that is to express net profit as a percentage of sales.

In one of this country's largest industrial companies the raw material cost of a product varies between 40 per cent and 90 per cent of the total cost according to the 'mix' of products going through. In addition, its raw material prices are very unstable at the present time. The following position could therefore arise:

	Year 1	*Year 2*	*Year 3*
	£	£	£
Sales value ..	140,000	235,000	95,000
Material cost ..	100,000	190,000	50,000
Manufacturing cost	25,000	27,000	29,000
Distribution cost	8,000	9,000	10,000
Net profit ..	7,000	9,000	6,000
	£140,000	£235,000	£95,000
Percentage of net profit to sales	5·0%	3·8%	6·3%

The figures are fictitious and have only been chosen to illustrate just one of the weaknesses of this method. Comparing Year 2 with Year 1 it will be seen that profits have increased but the percentage to sales has fallen. In Year 3, profits are below those of Year 1, and yet the percentage to sales is higher than ever.

Yours faithfully,

NORMAN PEARCE, A.C.A.

Little Aston, Staffs.

French for 'True and Fair View'?

SIR, – To settle a controversy in which I have been recently engaged, I should be much obliged to any of your readers who can suggest the proper French translation of the words 'true and fair view', as used in the Ninth Schedule of the Companies Act, 1948.

Yours faithfully,

R. A. BOURNE-PATERSON, M.A., A.C.A.

London, EC2.

FINANCE AND COMMERCE

Stock markets, mainly governed by the operations of the professional element, have apparently paid scant regard to such items as the dismal gold and dollar and balance of payments figures, the retreat from Abadan and the election manifestos. The fact is that the average operator is reducing his investment business to a minimum and in the resultant 'thin' markets a relatively small amount of business has striking effect on values. The undertone of markets remains steady but real business is small.

Douglas (Kingswood)

We reprint this week the accounts of Douglas (Kingswood) Ltd. Douglas is a famous name in motor-cycling history although in more recent years the business has included industrial trucks, electric delivery vans, etc. Unfortunately, as the heavy debit balance on profit and loss account shows, the post-war years have been difficult and the business is now in the hands of Mr W. Walker, F.A.C.C.A., as receiver and manager.

In the effort to rehabilitate the business, the directors, with the approval of the receiver, last year entered into an agreement with Paiggio & Cia of Italy for the manufacture and sale under licence of the 'Vespa' which provides an extremely popular form of single-track motoring in its country of origin.

The question of providing the capital to finance the venture in the company's financial situation was met by the issue of a 6 per cent convertible debenture stock in January last year. The stock was offered to ordinary and deferred stockholders at par in the proportion of £1 of stock for every £10 held. It is repayable at par on December 31st, 1959, but carries the right of conversion into a new 'A' class of ordinary capital which will be entitled to half the profits distributed by way of dividend and to half the assets in a winding-up after payment of the liabilities.

Development and special tooling was estimated at £52,000 and out of the balance of the debenture proceeds, £7,200 was ear-marked for the first four half-yearly interest payments on the debenture stock.

Second Year

The year covered by the reprinted accounts is the second of the rehabilitation years envisaged by the receiver on his appointment during which 'modest losses' were anticipated. Considerable progress has been made in the design and modification of the company's products, it is stated, and the heavy costs involved have been written off against the year's revenue. In addition to the 'Vespa' development and tooling costs borne by the debenture stock, much expenditure preparatory to its manufacture has necessarily been incurred and this also has been charged against the year's revenue.

Unfortunately, production of the 'Vespa' started some months later than anticipated chiefly owing to slow delivery of materials. But for the uncertainties of the times, the chairman says, the directors and the receiver consider the company would be entering into a phase of regular progress towards recovery. As it is, shortages and increases in the prices of essential materials manifest themselves from day to day with consequent disruptions of production and selling programmes.

All that can now be said is 'that by eliminating unsatisfactory and by balancing good stock, by improving existing products and preparing new ones, the foundations of future prosperity have been laid as far as lies within the control of all concerned'.

Sixty Years

We have had beside us for some time the annual report of Philips' Incandescent Lamp Works Co which commemorates the sixtieth anniversary of its foundation. The company has its headquarters at Eindhoven and its size may be gauged from the 26,000 of its personnel there, from the 13,000 others in the Netherlands outside Eindhoven, and in its total personnel throughout the world of some 90,000.

The anniversary booklet is full of most interesting material and pictures covering sixty pages and dealing with all the aspects of the company's production of lighting, radio, television, radar and allied equipment. In limited space, however, one can only pick, here and there, items of general interest.

We see, for instance, that Holland has under consideration the possibility of simplifying the procedure for the collection of social security contributions, preferably by combining it with tax collection.

In its general outline the report of the Philips' management has a familiar ring. In 1950 its turnover, its exports, and its earnings showed substantial advance and it is expected that the current year will show still further gain although 'in existing circumstances it is more difficult than ever to forecast what the current year will bring and the fact that the first months of 1951 have been better than the corresponding period of last year gives no reliable indication'.

Intensification of Western European defence measures is increasing the demand for the company's industrial and professional, rather than its domestic, products. Obviously, however, the company on the domestic side has a considerable part to play in the development of television throughout the world.

Money Market

Treasury bill applications totalled £327,410,000 on October 5th, and 69 per cent of requirements was obtained by the market. The average rate rose to 10s 3·13d per cent and this week's offer is for £260 million. There is no Treasury deposit receipt call this week although maturities amount to £25 million.

DOUGLAS (KINGSWOOD) LIMITED

(W. Walker, F.A.C.C.A. – Receiver and Manager)

Balance Sheet as at December 31st, 1950

(incorporating the transactions of its subsidiary – see note below)

			£	£	1949 £	1949 £
Members' Interest in the Company						
(I) Share Capital:						
Authorized:						
760,000 Ordinary Shares of 5s each			190,000		250,000	
240,000 'A' Ordinary Shares of 5s each			60,000			
£500,000 Ordinary Stock in units of 5s each			500,000		500,000	
£100,000 Deferred Stock in units of 2s each			100,000	£850,000	100,000	£850,000
Issued and Fully Paid:						
2,000,000 Ordinary Stock units of 5s each			500,000		500,000	
1,000,000 Deferred Stock units of 2s each			100,000	600,000	100,000	600,000
(II) Revenue Reserve			10,000		10,000	
(III) Profit and Loss Account			819,258	809,258	795,430	785,430
				£209,258		£185,430

Represented by

	Gross Values: At Valuation dated June 14th, 1935, plus additions at cost less sales (including War Damage adjustment) less transfers from Reserve Account at August 4th, 1939	Gross Values: Additions at cost less sales during the year	Deductions from Gross Values – Depreciation and amounts written off: To December 31st, 1949	Deductions from Gross Values – Depreciation and amounts written off: Year to December 31st, 1950	£	1949 £
(1) Fixed Assets:	£	£	£	£		
Freehold Land and Buildings	202,210	587	15,749	1,610	185,438	186,461
Fixed Plant and Machinery	199,862	6,215	98,108	9,004	86,535	97,062
Loose Plant, Vehicles, Furniture, Fixtures and Fittings	59,117	929	24,480	3,078	32,488	34,282
	£461,189	£4,699	£138,337	£13,692	*304,461	317,805
Patents, Trade Marks, Licence Rights, etc.					1	1
Shares in Subsidiary Company: Douglas (Sales & Service) Ltd					1	1
Shares in Associated Company					—	1
					304,463	317,808

* The buildings and plant were valued by Messrs Howes, Luce, Williams & Co, as at December 31st, 1946, in the sum of £400,675 which was £102,120 in excess of the book value of these assets at that date.

			£	£	1949 £	1949 £
(2) Douglas Vespa Development Account: (subject to charge under Debenture *per contra*)						
Initial Payment for Services and Drawings, Tooling, etc., including Debenture Interest of £3,042 and Expenses in respect of Debenture Issue of £1,105			55,843		—	
Cash at Bank			4,157	60,000	—	—
(3) Current Assets *less* Liabilities:						
Assets:						
Stock on hand and Work in Progress, less provision for scrap etc.			386,013		394,990	
Sundry Debtors and Unexpired Charges			97,190		75,857	
Income Tax Refund			—		13,361	
Cash in hand and at Bank			13,344		6,128	
			496,547	364,463	490,336	317,808
Liabilities:						
Receiver's Current Liabilities and Accrued Charges	£138,765				62,326	
Crown Assets – Liability for purchase price	—				11,000	
Creditors with claims ranking in priority to the Debenture-holders	11,647				11,647	
Bank Overdraft (secured by a first charge over all the Company's Assets except those specifically charged under the 6 per cent Convertible Debenture Stock)	721,739				705,612	
6 per cent Convertible Debenture Stock charged on specific assets *per contra*. Stockholders have the option, exercisable before December 31st, 1955, to convert their holdings into fully paid 'A' Ordinary Shares at par.	60,000				—	
Sundry Creditors, Accrued Charges and Unclaimed Dividends (pre-Receiver)	125,797	£1,057,948			127,629	
Provisions:						
For Service and Warranty, Deferred Maintenance and Losses on Forward Commitments		12,320	1,070,268	573,721	75,360	503,238
				£209,258		£185,430

HAROLD WHITEHEAD
H. N. HUME } *Directors.*

Auditors' Report

We report to the members of Douglas (Kingswood) Ltd that we have audited the books and accounts of the Company for the year ended December 31st, 1950, and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books.

The foregoing Balance Sheet and annexed Profit and Loss Account are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given to us the said Balance Sheet and Profit and Loss Account give the information required by the Companies Act, 1948, in the manner so required and they give in the case of the Balance Sheet a true and fair view of the state of the Company's affairs as at December 31st, 1950, and in the case of the Profit and Loss Account a true and fair view of the loss for the year ended on that date.

London, September 3rd, 1951.

THOMSON McLINTOCK & CO,
Chartered Accountants.

DOUGLAS (KINGSWOOD) LIMITED
(W. Walker, F.A.C.C.A. Receiver and Manager)
Profit and Loss Account for the year ended December 31st, 1950

	£	£	1949 £	1949 £
Profit on Trading (after crediting £63,040 being the amount of provisions made against future excessive manufacturing costs, guarantee claims and deferred maintenance no longer required. The amount credited in respect of such provisions in 1949 was £34,640		17,517		11,540
Deduct Depreciation of Fixed Assets	13,692		14,766	
Bank Interest	26,627		26,621	
Remuneration of Directors in Executive Capacity	2,500		2,500	
Auditors' Remuneration	525		525	
		43,344		44,412
Net Loss for the Year		25,827		32,872
Add Fee for preparing Statement of Affairs		—		210
Special Advertising and Cost of Overseas Travelling to rehabilitate Markets	—			5,949
				39,031
Deduct Profit on Sale of Investment in Associated Company		1,999		—
Refund of Income Tax		—		18,125
Net Debit for the Year		23,828		20,906
Add Debit Balance brought forward		795,430		774,524
		£819,258		£795,430

Note re Subsidiary Company: The transactions of the Subsidiary, Douglas (Sales & Service) Ltd, which acts solely as a selling agent for the Company, have been included in these accounts. Its operations for the year therefore have resulted in neither profit nor loss.

HAROLD WHITEHEAD } *Directors.*
H. N. HUME

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, October 3rd, 1951, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair; Mr T. B. Robson, M.B.E., Vice-President; Messrs G. Adam, M.C., W. L. Barrows, Sir Harold Barton, Messrs T. Hamilton Baynes, T. Fleming Birch, J. Blakey, W. G. Campbell, S. W. Cornwell, A. S. H. Dicker, M.B.E., S. H. Gillett, M.C., P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, K. A. E. Moore, P. Morgan-Jones, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, C. M. Strachan, O.B.E., E. E. Spicer, E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. G. Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Mr H. B. T. Wilde, with an Assistant Secretary.

Presentation of Prizes

In presenting the following prizes to the under-mentioned candidates, who were able to attend the meeting of the Council, the President said:

Gentlemen,

Twice a year the President of the Institute has the very pleasing duty of presenting the prizes and certificates of merit awarded to candidates at the recent examinations and, on behalf of the Council, of congratulating them on their achievements.

In the normal course of events the prizes are presented in the Council Chamber but unfortunately the contractors are still engaged on the renovation of that Chamber and it has therefore been necessary to hold this meeting in the Oak Hall. I trust that the sight of some of the members of the Council seated at examination desks does not remind you too much of days when you yourselves sat at similar desks in fear and trembling wondering what sort of questions the examination papers would reveal.

I do indeed congratulate you most heartily. It is no mean achievement to appear amongst the prize winners in examinations which are such a searching test of your ability and are designed to prove that you have absorbed and have been able to express clearly the knowledge you have acquired during a long and perhaps somewhat tedious course of study.

This occasion is somewhat unique in that it affords me the opportunity of welcoming a prizewinner in the Preliminary examination. To this young man, on the very threshhold of his career I offer, on behalf of the Council, our congratulations on his success and our sincere hopes that he may find the work in the profession of his choice congenial. We should be very pleased to see him again, three years hence, as a prizewinner in the Intermediate.

To those who have gained distinction by winning a prize or being awarded a certificate of merit in the Intermediate examination I would say, do not rest on your oars, but let your success be an inspiration to put that extra ounce of effort into your stroke and make sure of getting a good place in the final heat.

The Intermediate examination is, as it were, the half-way house, and I am afraid it means that you will have to set about your attack on the Final immediately. But if you will take a word of advice from me, do not neglect your physical training. Make a point of keeping up your favourite pastimes during the week-ends for there is no substitute for fresh air for clearing the mind of cobwebs and for enabling you to tackle your problems with renewed vigour.

I know it will be the wish of this Council that I

convey to you their best wishes for your success in the Final.

The successful candidates in the Final examination are to be congratulated on their ability in having surmounted the ordeal of that examination with distinction and I am sure you are proud to become members of the Institute and to be entitled to add the letters 'A.C.A.' after your names.

You are on the threshhold of a career in an honourable profession which although not one of the oldest, is held in high esteem in the world of commerce and by the government departments. Over a period of seventy years, this great Institute of ours has been built up by our predecessors, not merely by the ability which they displayed in the technique of accountancy, but even more important, by their high ideals, character and integrity. Without these latter attributes, the prestige of the Institute cannot be maintained and the Council is very jealous in safeguarding the highest standards of professional conduct amongst our members.

In my day there were papers set at both Intermediate and Final examinations on 'Rights and Duties', the subject-matter of which is now merged in other papers.

Nowadays we hear a great deal about rights, but I am sorry to say that duties are often pushed into the background. The man who insists on his rights may derive transitory benefit but if he neglects the duties which go with rights, he gets nowhere.

You, as members of this Institute, have your rights which you can exercise to the full, but do not forget the duties you owe to your clients, to the public and to the Institute.

The district societies play a very important part in our organization and I would impress upon you the importance of joining the society for your own area. You no doubt have derived many benefits from your district society during your period of service under articles and it is now your turn to give all the assistance you can to that society, attend its meetings and join in the debates. The Institute needs the help of the district societies in finding solutions to the many difficult problems with which it is confronted in these days.

On behalf of this Council, I extend to you our very best wishes for your happiness and for success in your future careers.

Final Examination

First Certificate of Merit, the Institute Prize, and the 'Walter Knox' Scholarship

Cox, Derek Ernest (J. Fawcett), Grimsby.

Second Certificate of Merit

Ironside, Donald James (A. E. M. Harbottle), Bristol.

Fourth Certificate of Merit, the 'W. B. Peat' Medal and Prize

Sargent, John Eric (R. G. Carter), London.

Fifth Certificate of Merit

Newcomb, Charles Buckle (A. W. S. Tabbernor), London.

Sixth Certificate of Merit, the 'Frederick Whinney' Prize and the 'Plender' Prize for the Advanced Accounting (Part I) Paper

Carmichael, Keith Stanley (W. J. Corpe), Bristol.

Sixth Certificate of Merit

Backshell, Thomas Christopher (H. E. Traylen), London.

Auditing Prize and the 'Plender' Prize for the Auditing Paper

Ross, W. R. M. (H. L. Layton), London.

'Plender' Prize for the General Financial Knowledge and Cost Accounting Paper

Gosden, D. L. H. (C. R. P. Goodwin), Brighton.

'Plender' Prize for the English Law (Part II) Paper

Mellor, J. D. H. (J. M. Freeman), Newbury.

'Roger N. Carter' Prize

Taylor, A. G. (G. Waterworth), Blackburn.

'Plender' Prize for the Advanced Accounting (Part II) Paper

Tripp, A. C. (J. L. Wannan), London.

Intermediate Examination

First Certificate of Merit, the Institute Prize, the 'Frederick Whinney' Prize and the 'Plender' Prize for the Book-keeping and Accounts (Executorship) Paper

Holt, Cecil Digby (J. F. Venner), London.

Second Certificate of Merit, the 'Stephens' Prize and the 'Plender' Prize for the General Commercial Knowledge Paper

Tansley, Thomas Anthony (J. B. Pinnock), Bedford.

Third Certificate of Merit, the 'Plender' Prize for the Book-keeping and Accounts (Limited Companies) Paper

Chancellor, Russell Edwin (T. B. Robson), London.

Fourth Certificate of Merit

Webster, Thomas Alfred John (G. T. E. Chamberlain), Leicester.

Preliminary Examination

First in Order of Merit and Institute Prize

West, Donald (Chorley).

Reduction in Period of Service under Articles

Three applications under bye-law 61 for a reduction in the period of service under articles were acceded to and one application was not acceded to.

One application under bye-law 63 (*c*) for a reduction in the period of service under articles was acceded to and one application was not acceded to.

Exemption from the Preliminary Examination

One application under bye-law 63 (*a*) for exemption from the Preliminary examination was acceded to.

Four applications under bye-law 79 for exemption from the Preliminary examination were acceded to.

Exemption from the Intermediate Examination

Two applications under bye-law 85 (*b*) for exemption from the Intermediate examination were acceded to and two applications were not acceded to.

Taxation and Research Committee

Messrs T. Fleming Birch, W. G. Campbell, P. F.

Carpenter, W. W. Fea, A. P. Ravenhill and P. M. Rees were appointed as nominees of the Council to serve on the Taxation and Research Committee for the year commencing October 1st, 1951.

Change of Name

It was resolved that the name of Mr Neville Frederick Wood, A.C.A., be changed in the Institute records to Neil Frederick Wood.

Appointments while Serving under Articles

Three applications under bye-law 57 from articled clerks for permission to accept appointments while serving under articles were acceded to.

Articled Clerks in Industrial Organizations

Three applications under bye-law 58 (*c*) from articled clerks to serve a period of their articles in industrial organizations were acceded to and one application was not acceded to.

Summer Course, Christ Church, Oxford

The chairman of the Summer Course Committee reported on the proceedings at Christ Church, Oxford, from September 9th to 14th, 1951. It was unanimously resolved that the President should send letters of appreciation to the four speakers, the Governing Body of Christ Church and all others concerned with the conduct of the course. The Council decided that the programme and the full text of the four addresses should be reprinted in the form of a combined booklet similar to those prepared after previous courses.

Copies are now being printed and will be obtainable shortly on application to the Secretary of the Institute, price 5*s* each, post free. Remittances should be sent with applications, which will receive attention as soon as the booklets are delivered by the printers.

As announced last year, the Council has approved the holding of a similar course from September 12th to 17th, 1952.

Certificates of Practice etc.

On the report of the Applications Committee the following resolutions were passed:

(1) That certificates of practice be issued to the following twenty-three associates who have commenced to practise:

Bearman, Donald Boyd; 1921, A.C.A.; (*Primost, Newbridge, Bearman & Co), 35 Copthall Avenue, London, EC2.
Burnell, James Walter; 1950, A.C.A.; (Wilkinson & Mellor), Leadenhall Buildings, 1 Leadenhall Street, London, EC3.
Burns, Martin Wolfe; 1951, A.C.A.; (Burns & Co), 'Mistral', Worple Road, Staines, Middlesex.
Caveney, Harry; 1951, A.C.A.; 112 Nasmyth Street, Denton, Manchester.
Coates, Herbert Arthur; 1949, A.C.A.; 'Rydal Mount', School Brow, Romily, Cheshire.
Feldman, Albert; 1951, A.C.A.; (A. Feldman & Co), 272 Willesden Lane, London, NW2.
Green, Owen Whitley; 1950, A.C.A.; (*Charles Wakeling & Co), Pomeroy House, 28A Basinghall Street, London, EC2.
Gregory, Herbert; 1950, A.C.A.; (George A. Box & Co), 20 Birley Street, Blackpool.
Hill, Maurice Vernon; 1928, A.C.A.; 6 Bank Street, Leeds, 1.
Langdon-Davies, Robin Harry, D.F.C.; 1950, A.C.A.; (Thornton & Thornton), Prudential Chambers, Banbury, Oxon.
Mead, Colin; 1951, A.C.A.; 12 Preston New Road, Churchtown, Southport.
Michaels, Gerald Harry; 1950, A.C.A.; 12 Ridge Road, London, N8.
Ortmans, Derrick Horace, M.A.; 1951, A.C.A.; (Clark, Battams & Co), 32 Victoria Street, Westminster, London, SW1.
Porter, John Austin; 1948, A.C.A.; (Stanley Porter & Co), 106 Cleethorpes Road, Grimsby.
Preston, Ross Frederick Gurney; 1943, A.C.A.; (R. F. G. Preston & Co), Haffenden House, Bethersden, near Ashford, Kent.
Rose, Philip; 1951, A.C.A.; 12 Gladstone Park Gardens, London, NW2.
Rothburn, Aubrey; 1951, A.C.A.; (Aubrey Rothburn & Co), 30 Atlantic Chambers, 7 Brazennose Street, Manchester, 2.
Schwartz, Sidney; 1950, A.C.A.; 33 Cheyneys Avenue, Canons Park, Edgware, Middlesex.
Smith, Noel George; 1937, A.C.A.; (Noel Smith & Co), 2–5 Old Bond Street, London, W1.
Storey, Ivor Charles; 1947, A.C.A.; (Percy F. Ward & Co), 27 Mosley Street, Newcastle upon Tyne, 1.
Walker, John Storr; 1948, A.C.A.; (T. & H. P. Bee), 13 Chapel Street, Preston, and at Blackpool and Fleetwood.
Wheeler, Peter James, D.F.C.; 1938, A.C.A.; Swinton House, 324 Gray's Inn Road, London, WC1.
Wilson, William; 1948, A.C.A.; (Ogden, Manning Hill & Co), National Provincial Bank Chambers, Bank Street, Mexborough.

(2) That twenty associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That two associates be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

(4) That one applicant be admitted as an associate under clause 5 of the supplemental Charter (bye-law 31).

(5) That nine applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before October 15th will appear in *The Accountant* of October 20th.

Registration of Articles

The Secretary reported that 263 articles of clerkship were registered during the months of August and September as compared with 324 in the previous August and September.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Leonard Ernest Allen, A.C.A., St Albans.
,, Algernon Beard, A.C.A., Finchley
,, David Arthur Davies, F.C.A., London.
,, James Henshall, F.C.A., Chester.
,, Thomas Holt Morris, A.C.A., Pwllheli.
,, Herbert Edwin Nowell, A.C.A., San Francisco.
,, Albert William Pooley, F.C.A., Leicester.
,, Henry Stanley Porter, F.C.A., Grimsby.
,, Edmund Reynolds, F.C.A., Watford.
,, Harold Frederic Richardson, A.C.A., Manchester.
,, Walter Parker Rocke, F.C.A., London.
,, Horner Stanley Wilson, F.C.A., Manchester.
,, Joe Preston Wood, F.C.A., Burnley.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

ASSOCIATION OF SCOTTISH CHARTERED ACCOUNTANTS IN LONDON

ANNUAL DINNER

A most enjoyable occasion was the dinner of the Association of Scottish Chartered Accountants in London held on Friday, October 5th, 1951, at the Savoy Hotel, London. More than 250 members and guests attended the dinner and were received on arrival by Mr C. I. R. Hutton, C.A., chairman of the Association, who presided.

Among those present were:

Mr John Adamson, C.A. (*Past Chairman of the Association*); Mr C. P. Barrowcliff, F.S.A.A. (*President, Society of Incorporated Accountants and Auditors*); Mr J. B. Braithwaite (*Chairman, the Council of the Stock Exchange*); Mr C. G. Brand (*Vice-Chairman, Federation of Civil Engineering Contractors*); Mr G. A. Collins (*President, Law Society*); Sir Archibald Forbes, C.A. (*President, Federation of British Industries*).

Sir David Allan Hay, K.B.E., C.A. (*Past-Chairman, Joint Committee of Councils of Chartered Accountants of Scotland*); Mr C. G. Hayman (*Chairman, Association of British Chemical Manufacturers*); Mr H. G. Judd, C.B.E., C.A. (*Past-Chairman of the Association*); Sir Frank G. Lee, C.M.G. (*Permanent Secretary to the Board of Trade*); Mr S. H. Mearns, C.A. (*Past-Chairman of the Association*); Mr D. Munro (*London Manager, The Union Bank of Scotland Ltd*); Mr T. B. Robson, M.B.E., F.C.A. (*Vice-President, Institute of Chartered Accountants in England and Wales*); and the Rev. R. F. V. Scott, D.D. (*Minister of St Columba's*).

Acute, Obtuse and Right Angles

The toast of 'The Association of Scottish Chartered Accountants in London' was proposed by Sir Archibald Forbes, C.A., who opened by saying that as a member of the profession – not in practice (laughter) – it was a privilege for him to be able to address his former masters and colleagues.

'This title – The Association of Scottish Chartered Accountants in London – seems to me to have something of a challenge in it. It seems to suggest that they are not at all ashamed of their origin, and almost dare the English to throw them out. (Laughter.)

'It has been said that when the Angles first descended upon this island, the acute Angles went North and the obtuse Angles went South. (Laughter.) It may be that as a result of environment, coupled, perhaps, with some elementary knowledge of mathematics, the southern drift of the Scottish chartered accountants to London has resulted in the evolution of the right Angle.' (Renewed laughter.)

Sir Archibald then went on to speak of the pamphlet entitled *Some accounting terms and concepts*, which he said he had recently read 'with a certain amount of interest and not a little alarm'. He felt that it was to be regretted that the 'two august bodies' who had set up the committee had not reached common ground on more of the major questions under their consideration.

He continued:

The Profession's Opportunity

'Industry would welcome some definite lead from the great accountancy profession on so many problems which perplex industry today. It is fashionable in many quarters to say that the accountant does not make profit but merely records it. To that theory I subscribe not at all. Your profession is now consulted on almost every business matter over a very wide field, not only by firms but by industry and government itself.

'It seems to me that your profession is closer than any other to the industrial and commercial world. And that being so, you have an admirable opportunity – no one better – to assess and pronounce upon the various problems which perplex the business world, and any such pronouncement by you people would be accepted as a balanced one, because it would be based not only on experience but on complete independence.

'I think, therefore, that you have an enormous opportunity lying to your hand to take a large and leading part in formulating financial policy, both industrial and national. It is with very great temerity, therefore, that I would suggest you are not making the fullest possible use of that very opportunity. I admit at once that individual members in the profession are doing a great deal in this way. I admit, too, that to reach any unanimity of view on the number of complex problems before you is difficult, even impossible. . . . I can assure you that any view which you would care to express on these matters would be heartily and most warmly welcomed by organized industry.'

Profit-sharing

On the subject of profit-sharing, Sir Archibald said:

'We can all appreciate at once the obvious difficulties which lie in the way of any such scheme. It clearly wants very close study, and a great deal of thought, and I would suggest to you that some study by your profession on this matter might well be of the greatest national benefit.'

In conclusion, Sir Archibald appealed to the profession to give more of a public lead to the business community on such matters as those he had indicated. 'A golden opportunity', he said, 'lies to your hand, and I hope you will grasp it.'

The toast of 'Our Guests' was proposed by Mr Hutton, who said in the course of his speech:

'Until this year we have had the somewhat unusual distinction of being the offspring of three parents. (Laughter.) A few months ago the parent societies in Scotland amalgamated into one, and this is the first dinner to be held since that amalgamation.' (Applause.)

Thanking Sir Archibald Forbes for his stimulating speech, Mr Hutton said that Sir Archibald was 'in mid-stream of a most distinguished career' and could truly be called 'the commander-in-chief of British industry'. Referring to some of the very important problems touched upon by Sir Archibald, he continued:

'I do feel that the man who is really going to solve these problems is the man who is going to show us how to run the country on a substantially lower rate of tax.'

In replying to the toast, Mr J. B. Braithwaite expressed the pleasure he felt at being asked to do so and said that though he was not a Scotsman by birth, he could claim to be 'a Scotsman by conviction'.

During dinner, Sir Archibald Forbes presented golf trophies for the years 1950 and 1951: Bogey Challenge Cups, 1950, to Mr J. W. Johnstone, C.A., and Mr H. MacDougall, C.A.; and Bogey Challenge Cup, 1951, to Mr W. J. Findlay, C.A. The 'Past Presidents' Challenge Cup', 1950, was won by Mr A. R. Currie, C.A.; the 'Past Presidents' Challenge Cup', 1951, and Bogey Challenge Cup, 1951, by Mr J. Robertson, C.A.

NOTES AND NOTICES

Personal

MESSRS CATTELL & CHATER, Accountants and Auditors, of Bank Chambers, High Street, Kettering, announce that Mr G. A. TAYLOR, B.COM., A.C.A., was admitted a partner on October 1st, 1951.

MESSRS DEACON, GUILD & Co, Chartered Accountants, of Halifax Chambers, High Street, Coventry, announce that as from October 8th, 1951, their address will be Lloyds Bank Chambers, Greyfriars Lane, Coventry. Telephone: 60022 (5 lines).

MESSRS LOMAX, CLEMENTS & Co, Incorporated Accountants, of St Paul's House, 61–63 St Paul's Churchyard, London, EC4, announce that as from October 1st, 1951, they have taken into partnership Mr J. F. GLENISTER, A.S.A.A. The name of the firm will remain unchanged.

MR H. C. FLETCHER, A.S.A.A., practising as GIBSON & FLETCHER, Incorporated Accountants, of 31 Earl Street, Mullingar, announces that he has taken into partnership MR ROBERT T. POOLE, A.S.A.A., who has been a member of his staff for the past few years. Mr POOLE who qualified in 1940 has had sixteen years' accountancy experience, three of which were spent as an industrial accountant and five on the Irish staff of one of the largest firms of chartered accountants in England. The firm will continue to practise under the style of GIBSON & FLETCHER, at the above address.

MR WILLIAM K. GEDDES, C.A., F.A.C.C.A., and Mr NEIL CAMPBELL BEATON, B.COM., C.A., announce that they have amalgamated their practices and that, as from October 1st, 1951, they are practising in partnership under the firm name of GEDDES, BEATON & Co, Chartered Accountants, at 6 Rutland Square, Edinburgh, 1. Telephone: Edinburgh 34171.

MESSRS MOORES, CARSON & WATSON, Chartered Accountants, of 209 West George Street, Glasgow, C2, announce that they have, as from October 1st, assumed Mr HUGH MACKENZIE LESLIE, C.A., as a partner of the firm.

MR NORMAN C. R. FLEMING, F.S.A.A., and Mr THOMAS J. HARRISON, A.C.A., practising as CHARLES E. DOLBY & SON, at 11 Dale St, Liverpool, 2, announce that as from October 1st, 1951, they have admitted into partnership Mr GEOFFREY PHILIP WARING, A.C.A., who has been associated with them for some years. The style of the firm will remain unchanged and the practice will be continued from the same address.

Board of Inland Revenue

APPOINTMENT OF NEW DEPUTY CHAIRMAN

Mr Edgar William Verity, C.B., a Commissioner of Inland Revenue, has been appointed a deputy chairman of the Board of Inland Revenue in succession to Sir Clifford Holland Wakely, K.B.E., who is retiring from the public service on October 31st.

Mr Francis Arthur Cockfield, Director of Statistics, has been appointed a Commissioner of Inland Revenue in succession to Mr Verity.

National Service

We are informed by the War Office that if a young newly-qualified accountant is interested in serving his period of national service in the Royal Army Pay Corps – a corps which can provide work and mental exercise of the type for which he is trained – he should write to the War Office, stating his preference to serve in that corps.

Provided that they have advance notification, the War Office say that it will then be possible for them to make appropriate arrangements.

Normally, a young newly-qualified accountant will be eligible to take what is known as a national service commission – that is, subject to acceptance by the War Office Selection Board he can do most of his national service as a commissioned officer.

It is also possible that after national service in the Royal Army Pay Corps some individuals may feel desirous of taking a regular commission in that corps; this was mentioned in our issue dated September 29th, 1951.

The address from which information can be obtained is: The Paymaster-in-Chief, the War Office (F.9A), Northumberland House, Northumberland Avenue, London, WC2.

The Chartered Accountant Students' Society of London

The President's meeting of the Chartered Accountant Students' Society of London, held in Guildhall on October 4th, was attended by about 850 members. The Lord Mayor of London, Sir Denys Lowson, who was introduced by Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., President of the Society, spoke of the ancient building in which the meeting was being held, and the still more ancient procedure of the Court of Common Council of the City of London which had been held in Guildhall during the afternoon. He emphasized the Court's importance as the historical source of the modern system of free democracy by parliamentary legislation and control.

The Lord Mayor then left the meeting to keep another appointment, and Sir Harold Howitt introduced Sir Theobald Mathew, K.B.E., M.C., Director of Public Prosecutions, whose informative and entertaining address on 'The King's peace' was keenly appreciated by the audience as a broad and factual survey of the development of the system of security for the individual and his property from the attacks both of other individuals and of government bodies.

The meeting terminated with votes of thanks to Sir Theobald Mathew, proposed by Mr T. B. Robson, M.B.E., M.A., F.C.A., Vice-President of the Institute of Chartered Accountants, seconded by Mr B. D. Barton, B.A., A.C.A., chairman of the committee, and to Sir Harold Howitt, proposed by Mr M. A. Linsley.

We hope to reproduce Sir Theobald Mathews' address in a later issue.

Company No. 500,000

Half a million company registrations in England and Wales had been effected since the coming into force of the Companies Act of 1862, when on Wednesday, October 3rd, the 500,000th certificate of registration was handed by the Registrar of Companies, Mr J. D. Todd, to the firm of H. Rock (Hull) Ltd, a firm of consulting engineers and assessors incorporated with a nominal capital of £1,000.

The first quarter of a million registrations took 68 years – until 1930 – to achieve; the second quarter of a million has now been reached only 21 years later. The increase in registrations was due in the main to the large number of firms taking advantage of the new provisions of the Companies Act, 1907, which for the first time permitted the formation of private companies. It took 46 years, up to 1908, to register 100,000 companies. After that it took only 16, 11, 10, and 6 years respectively for each subsequent 100,000.

The number of companies now on the register for England and Wales is roughly 252,000, of which some 15,000 are public companies.

The number of companies incorporated in Scotland since 1856 is approximately 28,600, of which 15,000 (including 1,500 public companies) remain on the register.

Australia and New Zealand Bank Ltd

From October 1st, the new bank 'Australia and New Zealand Bank Ltd' is carrying on in its own name the combined businesses of the Bank of Australasia Ltd and the Union Bank of Australia Ltd.

This event marks an epoch in the history of banking in Australia and New Zealand, and, indeed, in the history and development of those two countries, for the Bank of Australasia was founded in 1835 and the Union Bank of Australia in 1837. Both banks played an important part in the early settlement of Australia and New Zealand, and for over a hundred years have assisted in the development of the trade and resources of those countries.

To commemorate the merger, a specially prepared attractive 48-page booklet entitled *October first, 1951*, gives the stories of both banks, with facts and figures, and a well-illustrated summary, 'Lands of opportunity'.

Hill Lands (North of Scotland) Commission

The Secretary of State for Scotland has announced the composition of the Hill Lands (North of Scotland) Commission, which is to explore the possibilities of breeding and rearing more cattle in the Highlands.

The chairman of the Commission will be Lord Balfour of Burleigh, and one of the nine members will be Mr A. C. Chalmers, C.A.

Chartered Accountants' Golfing Society

The autumn meeting was held at Aldeburgh Golf Club on September 29th and 30th. The perfect weather and the hospitality of the club combined to make the meeting a most enjoyable one for the twenty-eight members who attended.

The Medal Round on the Saturday morning was won by C. S. Forsyth who, playing from a handicap of 14 returned a gross score of 80 (net 66), which also won the scratch prize. The runner-up was J. B. P. Williamson whose net score of 73 also secured for him the Turquand-Young Challenge Cup for 1951; this being the second round of the competition for this trophy. The first round was played at Woking on June 8th last when Mr Williamson returned a net score of 75.

The leading results of the competitions played during the week-end were as follows:

MEDAL COMPETITION

1.	C. S. Forsyth	80—14=66	(wins 1st prize and scratch prize)
2.	J. B. P. Williamson	88—15=73	(wins 2nd prize)
3.	F. Green	86—11=75	
4.	R. A. Daniel	88—10=78	
	D. L. Thomas	92—14=78	
6.	P. B. Lake	88— 9=79	
	J. C. Sheldrake	82— 3=79	
	A. L. Bersey	94—15=79	
	C. C. Living	97—18=79	
10.	H. G. J. Foulger	98—18=80	

GREENSOME BOGEY (STABLEFORD)

1.	P. B. Lake and J. C. Sheldrake	39 points
2.	H. G. J. Foulger and C. S. Forsyth	31 ,,
3.	R. A. Daniel and F. Green	30 ,,
4.	T. W. A. R. Auker and E. E. W. Muliett	29 ,,
	L. R. Elcombe and L. E. Parsons	29 ,,

TWO-BALL FOURSOME BOGEY (STABLEFORD)

1.	J. D. Green and L. V. Mills	34.2/16ths
2.	C. C. Living and D. L. Thomas	33
3.	P. B. Lake and J. C. Sheldrake	32.4/16ths
4.	C. S. Forsyth and J. C. Powell	31.4/16ths
5.	J. H. L. Davies and S. W. Penwill	30.7/16ths

FOUR-BALL MEDAL (STABLEFORD) OVER NINE HOLES

1.	L. E. Parsons and R. A. Daniel	35 net
2.	F. Green and P. B. Lake	36 ,,
3.	J. C. Sheldrake and S. W. Penwill	37 ,,
	J. Clayton and L. R. Elcombe	37 ,,
	J. B. P. Williamson and L. V. Mills	37 ,,
	A. L. Bersey and J. D. Green	37 ,,

The Association of Foreign Certified Public Accountants in Japan

We are indebted to Mr H. V. G. Upton, A.C.A., C.P.A. (Japan), of Yokohama, for advising us of the formation on September 1st, 1951, of 'The Association of Foreign Certified Public Accountants in Japan', of which he has been appointed to the combined post of chairman and secretary.

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The Belfast Society of Chartered Accountants

The opening meeting of the winter session of the Students' Group was held last night at the Lombard Café, Lombard Street, Belfast, and was presided over by Mr James Walker, F.C.A., chairman of the Society.

After tea, provided by the chairman, Mr A Lovesy, A.C.A., gave an address on 'Income-tax in Eire and Northern Ireland', which was followed by a discussion.

The committee of the group is at present arranging the programme of meetings for the 1951–52 session, and details will be announced later.

Golf Competition

About thirty members of the Belfast Society of Chartered Accountants played in the annual golf competition for the Society's cup at Castlerock Golf Club on September 29th last. Mr Hugh Stevenson and Mr E. T. McNeill drew with thirty-four points each (under the Stableford system), Mr Stevenson being declared winner of the cup, for the third time, on the best score in the second nine holes. Prizes for the winner and runner-up were presented by Mr R. E. McClure and Mr W. M. Geddes.

Institute of Internal Auditors, Inc., New York

London Chapter

The following programme has been arranged for the 1951–52 season. Each meeting will be preceded by either lunch or dinner and after a brief introduction of the subject by the speakers, will be followed by a general round-the-table discussion:

Nov. 7th: 'Accounting for inflation: theory and practice', Mr R. A. Reid, C.A. (*Manager, Internal Audit Dept., the Philips Group of Companies*); *Dec. 5th:* 'Internal auditing in practice: the scope of my job', Messrs R. C. Bedford, A.C.A. (*Chief Accountant, National Cash Register Co Ltd*); F. G. Hobson, A.C.A. (*Internal Audit Manager, Harrods Ltd*); W. J. Smith, C.A. (*Chief Internal Auditor, British Overseas Airways Corporation*); *Jan. 2nd:* 'The cost of making a little more: how to measure it', Mr D. Solomon, B.COM., C.A. (*Lecturer in Accounting, London School of Economics*); *Feb. 6th:* 'Techniques of organization and methods work', Mr J. Mills, A.C.I.S., M.I.I.A. (*Assistant Comptroller, J. Lyons & Co Ltd*); *Mar. 5th:* 'Internal audit programme for stock control', Messrs J. O. Davies, F.C.A., A.C.W.A. (*Chief Internal Auditor, National Coal Board*); G. E. Hindshaw (*Internal Auditor, Goodyear Tyre & Rubber Co (Gt. Britain) Ltd*); *April 2nd:* 'Operating reports for management', Mr F. A. Callaby, F.C.W.A. (*General Divisional Accountant, The Westinghouse Brake & Signal Co Ltd*); *May 7th:* 'Some economic problems of the day', Mr C. L. Paine, B. (*Economic Adviser, Courtaulds Ltd*); *June 4th:* a general meeting.

All meetings will be held at the Kingsley H Bloomsbury Way, London, WC1.

Seventy-five Years Ago

FROM *The Accountant* OF OCTOBER 14TH, 18

Concluding paragraph of a note which begins wit observation on

The Versatile Man

From an advertisement in the *Daily Telegrap* gather that one of these gifted individuals has smitten with a desire to dispose of his services the view to the pecuniary benefit of himself and who may be happy enough to become associated to him. A 'partnership or otherwise' is required, and advertiser proceeds to describe himself as 'a ge man with small capital' who 'desires to enter a fide concern where his time would be fully occu Not frightened of hard work.' From the state of gentleman's grammar we should have expected to offer himself as schoolmaster; but he is co with inviting applications from 'draper, gr publican, or accountant and financier', the being most invidiously 'preferred'. Preposterou the whole affair is, it is not altogether impossible t some person 'described as an accountant', may wanting an individual like the advertiser who would vary his figuring or financial exploits by 'mindir the shop' or manipulating the yard-stick. And, w may add, those who advocate the use of the designation 'public accountant' derive some support for their views from the fact that the shady gentry who make periodical appearances at Bow Street, neve 'describe' themselves by that title; nor do advertisers with more capital than wit ever announce thei intention of becoming either a public accountant o a 'draper, grocer, or publican'.

TAXATION REPORT

IMPORTANT SERVICE TO PRACTITIONER

These advance reports, published by Gee & Co (Publishers) Ltd, in collabo ation with Taxation Publishing Co Ltd, have the following advantage Reports of every English case are posted to subscribers as soon as possib after the transcript of his judgment has been approved by the Judge and available ★ EVERY Income-tax, E.P.T., profits tax, stamp duty and deat duty judgment in the English and Scottish Courts is reported ★ The repor are accredited for citation in Court, and are prepared by Mr N. E. Muste M.A., LL.B., Barrister-at-Law, and formerly of the Solicitor's Department Inland Revenue ★ The reports include full reports of the judgments w detailed head-notes ★ A title and subject index is provided at the enc the year on completion of each volume.

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The Accountant

ESTABLISHED 1874

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THE PRESIDENT OF THE INSTITUTE AT TORQUAY

THE part played by taxation in the country's present economic and financial difficulties was a feature of the address which MR C. W. BOYCE, C.B.E., F.C.A., President of The Institute of Chartered Accountants, delivered at the autumnal meeting held in Torquay last week, when the Bristol and West of England District Society acted as hosts. The effects of high taxation, the PRESIDENT said, were now so severe that naturally no enterprising business could be expanded out of retained profits; if banking facilities to undertakings of undoubted stability were curtailed, the only effect could be a reduction in trade and a consequential loss to the country. This subject was dealt with at length in a paper read later by MR E. G. TURNER, M.C., F.C.A. Two other papers were given: by MR T. A. HAMILTON BAYNES, M.A., F.C.A., and by Mr W. G. CAMPBELL, B.A., F.C.A., on the valuation of holdings in private companies. MR HAMILTON BAYNES dealt with the matter from the estate duty angle while MR W. G. CAMPBELL considered the more general aspect. The first part of the latter paper is reproduced elsewhere in this issue.

The PRESIDENT expressed concern at the onerous nature of Section 32 of the Finance Act, 1951, which gives the Inland Revenue the same powers to make directions in the case of profits tax 'avoidance' transactions as it had in relation to excess profits tax. He referred also in critical terms to Section 36 of the same Act which gives further wide powers to the Inland Revenue in relation to changes of residence and cognate matters. The PRESIDENT observed that the matters dealt with by the section were more appropriate to Exchange Control legislation than to taxation. The section would diminish materially any hope of industrial development being financed by capital provided by residents outside the United Kingdom. Heavy taxation in general was driving industrialists to thoughts of emigration and of the establishment of new businesses carried on and controlled abroad.

Referring to the Royal Commission on the Taxation of Profits and Income, the PRESIDENT said that the Council of the Institute, with the valuable assistance of the Taxation and Research Committee, had already submitted a memorandum under the heads relating to general, social and economic questions and a further memorandum on particular matters relating to the taxation of profits and income, was being prepared. These documents will remain confidential until made public at the Commission's hearing of oral evidence.

The PRESIDENT dealt incisively with the subject of the growing threat of inflation, remarking that some of the remedies applied

to curb inflationary tendencies were the direct concern of accountants. Certainly, constant increases in wages and salaries could not ensure the maintenance of living standards and social services, for these increases must add to the cost of the necessities of life. Real wages could be increased only by increasing the rate of actual production and this called for new machinery, more alert and enterprising management, the abandonment of restrictive practices by employers and employed, and a willingness to work longer.

The CHANCELLOR had expressed the hope, the PRESIDENT said, that the announcement of dividend limitation and of other measures proposed, would have a restraining influence on wage demands, simply by their psychological effect. However, the newspapers showed almost every week that this effect had not been achieved. Dividend limitation would operate most unfairly; shareholders of companies which, in compliance with Government exhortations, had voluntarily refrained from even modest increases in dividends, would now be penalized for the patriotic action of their directors. Limiting dividends to 5 per cent in the case of companies, such as rubber companies, which had been prevented for a long time from carrying on business and which were just now resuming dividends, would be most unjust. He hoped that special treatment would in any event be accorded to such cases. Again, the 7 per cent limit for new companies could only dry up the supply of risk capital and divert promising new enterprises to companies oversea. The PRESIDENT hoped that the dividend limitation proposals would never reach the stage of a formal Bill. Readers will hope that his words on these matters of taxation and economic controls will receive proper attention in the appropriate quarters and that his warnings will be heeded.

Dealing with more domestic matters, the PRESIDENT stated that the membership of the Institute, which in 1926 was only some 7,000 when it was last entertained by the Bristol and West of England Society at an autumnal meeting, had now passed the 16,000 mark.

The PRESIDENT had something to say about education for the profession, particularly for those who aspired to membership of the Institute. He said the Council of the Institute had viewed with grave concern many of the recommendations of the CARR-SAUNDERS Committee on Education for Commerce. As a result of the MINISTER EDUCATION's intention to implement some these recommendations, the Council had p pared a report on 'Education and Training Membership' which was issued in March 1951, was available in booklet form free to all memb The report was a comprehensive document covered the whole field of education and train for articled clerks and showed why the Cou found the CARR-SAUNDERS recommendat wholly inappropriate for persons wishing become members of the Institute. The Cou reinforced this report by sending a delegation senior officials of the Ministry of Education the purpose of removing some misunderstandi which appeared to exist regarding the position the Institute, the proposed county colleges, a the CARR-SAUNDERS report. As a result of meeting it was clearly understood that Ministry, after reviewing the Institute's meth of training articled clerks, had no intention interfering in any way with the profession a further, would not consider any move which might affect the Institute without full prior discussion with it.

The PRESIDENT spoke of the important role played by students' societies and referred with approval to the booklet 'The Place of the Students' Society in the Education of Articled Clerks', which was issued by the Council last August for the use of committees of district and students' societies. He added that the 'distant' student, who had difficulty in reaching meetings of his particular society, had benefited through the residential courses now being run by several district societies.

This led the PRESIDENT to the low percentage of passes at the Intermediate and Final examinations since the Second World War. Denying the suggestion made in some parts of the Press that more stringent marking was being employed, said the phenomenon was purely an aftermath the war and was by no means confined to the Institute. Concessions to ex-Service candidates resulting in less time spent on practical work, and in particular in exemptions from the Intermediate examination, seemed to be of doubtful value in the light of experience. In future, exemption from the Intermediate would not be given.

A report of the proceedings and photographs taken during the meeting appear on other pages of this issue.

A QUESTION OF CLARITY

WRITING, according to Bacon, maketh an exact man. An accountant is an exact man. Therefore, an accountant is practised in the art of writing. The accountant, being something also of a logician, will immediately recognize the flaw in this syllogism. Members of the profession acquire their preciseness because of their training and experience with figures rather than through their acquaintance with letters. Indeed, the task of expressing crisp, mathematical conclusions in adequate prose is perhaps as difficult a part of the accountant's work as any, for it is essential that his findings should lose none of their clarity in the course of transit from the one medium to the other. The accountancy profession, being much younger than the English language, has not contributed many distinctive words to the common vocabulary or even given specialized meanings to existing ones, in the way that the older professions of medicine and law have done. Accordingly, the accountant in reporting has to rely on the language of common usage. The effort is exacting but it is also rewarding for not only is he addressing his clients, who are mostly laymen, in words that they readily understand, but he is demonstrating, by not having to resort to professional jargon, the richness and variety of the King's English.

This heritage of language has had many champions against would-be assassins, and prominent in the lists in recent years has been SIR ERNEST GOWERS. In 1949, at the invitation of the Treasury, he wrote *Plain Words*, a manual intended to help in improving official English. This he has followed up, again at the request of the Treasury, with an *ABC of Plain Words*.[1] The book is made up of short articles, arranged alphabetically, on subjects about which civil servants, either at a loss for words or with too many at their command, may need guidance. The author's four themes are vocabulary, grammar, mechanics and style and he endeavours to answer the following questions: Am I using a word or phrase in the proper sense? Is my grammar right? Is what I have written properly constructed and punctuated and spelt? Is what I have written as clear and as simple as it can be made? The result is a scholarly collection of the precepts to observe accompanied by many amusing examples of the pitfalls to avoid.

While SIR ERNEST has many sound observations to make on points of grammar, construction and punctuation, it is his more individual comments on vocabulary and style which will best please the difficult reader who likes to be entertained as he is being instructed. On words which have become popular because of the peculiar times in which we live, SIR ERNEST gives some excellent cautionary advice. He approves of 'bottleneck', for example, as a useful and picturesque metaphor but points out that it is necessary to remember that the most troublesome bottleneck is not the biggest but the smallest. Another bright young metaphor is 'ceiling' which should suggest a vertical maximum but is used indiscriminately to denote length, breadth and even depth, as in

> 'The effect of this announcement is that the total figure for 1950–51 of £410 million can be regarded as a floor as well as a ceiling.'

Even more abused is the word 'target'. It is difficult to appreciate instantaneously that a metaphorical target, when doubled, will be twice as hard to hit and not, as one might have thought, twice as easy. And should one sympathize with, or condemn, the sub-editor who gave a report on a warning by the Prime Minister that a dock strike was 'imperilling the possibility of obtaining our six months' export target', the headline 'Attlee says Export Target Hit'?

On the question of style, SIR ERNEST favours the simple and direct approach, so long as the meaning is adequately conveyed, on the principle that a good little word is better than a good big 'un. He attacks jargon, woolliness, padding and pomposity, everything in fact which tends to obscure the message from the writer to the reader. In spirit, he is not far removed from SIR ARTHUR QUILLER-COUCH who, many years ago, in a series of Cambridge lectures recommended as the four essentials to good writing – appropriateness, accuracy, perspicuity and persuasion. The last of these – a composite quality the chief ingredient of which is charm – is seldom apparent in official English. But it is latent in almost every form of writing and may bloom in unexpected places, even in the middle of an arid correspondence with the Inland Revenue.

[1] H.M.S.O. 3*s*.

COMPANY MEETING IN WONDERLAND

by ANGUS MACBEATH, C.A., A.C.W.A.

The annual general meeting of 'Wonderland Ltd', described in our issue of July 21st last, under the heading 'Balance Sheets in Wonderland', was adjourned after the consideration of the balance sheet and before the accounts had been adopted. The meeting is now concluded.

The Editor informs readers that the characters in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.

I MUST have been dozing when a squeeze at my arm shook me into sudden awakeness and the book which I had been reading fell with a thud to the floor. It was a volume on the profits tax and the noise it made startled me almost as much as would an increase in the rate of the tax to 100 per cent.

Alice was standing beside my chair, an impish smile on her face. I waited for her to explain the smile.

'It's come', she said.

And off went my mind rambling through all the possibilities which that cryptic remark conjured up.

'Oh, yes?' I managed to reply.

Adjourned Annual General Meeting

'The adjourned meeting is to be held today and there is a special invitation for you from the Jack of Hearts.'

I was now fully awake. 'Oh no', I said, 'not that! Once was quite enough.'

'Oh, *do* come, Uncle Mac. There's sure to be coffee and cakes again.' Evidently she was well aware of the professional weakness for elevenses and I could see that willy-nilly I should be cajoled into attending that adjourned meeting.

'Very well then, but remember, if it is adjourned again this is definitely the last time for me.'

Alice merely nodded and started pulling me towards the door.

It was all so familiar – the Cheshire Cat bowing his welcome, the trees, the lawn, the table, the castle, the members and their friends.

When the Red Queen was seated she turned to the Jack of Hearts. 'Where did we break off? Will you continue, please?'

The Jack rose, bowed to the Queen, and continued. 'We had just concluded our review of the balance sheet and I had explained the points of difference between the copies held by each member.

The Consolidated Balance Sheet

'Now we come to the consolidated balance sheet. My balance sheet covers all the group, all the accounts are made up to the same date, and I have a difference on exchange carried forward which is due to fluctuations in the rate of exchange between our currency and the one used by Looking-glass Land.'

Then he started going round the table, addressing each member individually, as he had done before.

'In your balance sheet there is a suspense account arising from date differences. For taxation reasons your accountant did not consider it wise to change the financial year of some of the subsidiaries to coincide with that of the company.'

'You have an asset for "subsidiaries not consolidated. . . ." ' The accountant here made vehement protest that it was misleading to include the Bridge Club Company accounts with those of the other companies in the group and he also insisted on leaving out two more because he said their business could not reasonably be incorporated with that of the holding company.

'You, sir' – he faltered a bit as he said this – 'have no consolidated balance sheet; instead, you have a copy of the accounts of each of the companies in the group for their last financial year.'

When I looked at the member being addressed by the Jack I realized why he had faltered. The member was the Sheep and he was looking simply bewildered amidst a mass of accounts of all colours, types, and sizes, which he was turning over one by one.

A bleat hovered on his trembling lip, but it was the Dormouse who made the only noise and he was discovered turning his accounts upside down and over and over and muttering as he had done at the previous meeting.

'Oh, sir', said the Jack, sweeping into action, 'you have no separate consolidated balance sheet. The balance sheet of the holding company has been expanded to take in the assets and liabilities of all the subsidiaries.'

This quietened the Dormouse but he now looked as bewildered as the Sheep.

The Jack moved on: 'In your accounts, sir, in place of a consolidated balance sheet, you have

a statement of the assets and liabilities of all the subsidiary companies.

'Now that, I think, covers the special points of divergence between the consolidated accounts.'

The Budget

At this moment a Red Admiral butterfly flew into the centre of the table and alighted near a bottle of purple ink.

There were murmurs of consternation round the table and I looked questioningly towards Alice.

'This is Budget Day', she said, 'and the Red Admiral has brought details of the proposals.'

The butterfly perched himself on the bottle of ink, dipped in his legs, then marked on a sheet of paper with his inky feet. As the marks progressed over the paper the consternation grew: Alice kept me informed.

'Income-tax has gone up to 2½*d*; tobacco tax increased 10 per cent (I saw the Caterpillar quietly putting out his hookah); purchase tax on hats of 33⅓ per cent (the Mad Hatter drew the sleeve of his coat carefully round his hat to even the sheen), and, oh dear! there is to be a luxury tax of 20 per cent on coffee and cakes!

The Red Admiral stopped here; there was a hurried conversation between the Red Queen and the March Hare, then the Queen announced: 'If we have coffee and cakes now we shall just be in time to beat the Budget.'

As she said this the servants appeared out of the ivory castle as before. But never have I seen coffee and cakes disappear with such amazing rapidity. No articled clerk finding his principal inconveniently coming into the same coffee house ever worked so quickly. I hoped the budget would not cause physical, as well as mental, indigestion.

When the coffee cups had been cleared away the Red Queen waved to the Jack who rose and proceeded.

Profit and Loss Account

'We come now to the final account – to the profit and loss account. On the credit side we have the trading profit for the year . . .' But the Dormouse was in trouble again and was muttering quite plaintively 'no side, no side', as though he had just finished refereeing a miserable rugby match on a wet day.

'Your account is different, sir,' said the Jack, 'it is all on one side: that is known as the vertical form.' So the Dormouse stood on his head and that made him vertical too.

'That's to show he understands', Alice whispered to me.

I looked at the Dormouse with renewed interest and wondered if Alice's theory was correct. There were so many different forms nowadays that shareholders must often have stood on their heads (metaphorically of course) when they tried to understand them all.

The Jack was going on. 'The differences in the trading profit are in the main due to the variations in treatment of assets and liabilities with which we dealt when considering the balance sheets.

'Now in my accounts the amount for taxation is shown as a charge before arriving at the net profit for the year and the charge is debited in the profit and loss account. In yours', he looked at one of the members, 'the taxation is treated as an appropriation; while in your account', the poor Dormouse did not look so understanding as Alice had suggested, 'the vertical form has allowed the accountant to take the very clever half-way step of showing net profit before taxation and net profit after taxation.

'I feel, your Majesty, that we have now examined the accounts in sufficient detail. We come accordingly to the question of the dividend for the year.'

Taxation Again

A disturbance at the table revealed that an altercation had broken out between Tweedledum and Tweedledee. The little fat men were becoming quite red in the face as they gesticulated to each other.

'Its a charge', thundered Tweedledum.

'Its an appropriation', equally thundered Tweedledee.

'Oh dear, its this tax business again.' Alice was quite agitated. 'There's sure to be a fight.'

And fight there had to be.

When the two contestants were ready, Tweedledum looked ill-protected with a covering of copies of the Companies Act, 1948, which made flimsy comparison with Tweedledee's solid phalanx of good, substantial, pre-war text-books.

I looked around for the crow but there was no sign of it this time.

The first lunge which Tweedledee made with his paper-knife was safely dealt with by Tweedledum's ebony ruler, but when Tweedledee lunged again Tweedledum faeinted,* fell over, and had to be lifted up.

The Red Queen then conferred with the March Hare, and Tweedledee was declared victor on a technical knock-out.

* Faeint: to appear ill, to mask a subtle thrust, as in the sentence 'During our interview with the Inspector of Taxes the client faeinted'.

I noticed that Alice was looking puzzled and when our eyes met she inquired, 'What is a technical knock-out?'

'Oh, that is something of which we have numerous examples', I replied. 'For example, we have a Millard Tucker Committee Report, a Dividend Freeze, or a Special Contribution.'

But Alice either did not understand or could see no fun in my remark because I received merely a glassy look.

The meeting then resumed.

Dividend

'A dividend for the year is the last point in the accounts', said the Jack, now looking annoyed by the interruptions he had had; 'the directors recommend a dividend of 25 per cent——'

Here the noise broke out afresh and it appeared from the comments made that the directors had recommended a different dividend for each set of accounts and some accounts had no dividend at all. The Red Queen also was now looking annoyed.

'There is only one solution to this problem which I can see', she said, 'we must all do without a dividend this year. Next year' – she addressed the Jack of Hearts – 'you will arrange that all the accountants in Wonderland agree on one set of accounts as correct for us to adopt.'

The Jack looked really startled! 'Your Majesty . . .' he began, but the Red Queen waved her hand and he relapsed into his chair with a groan.

The meeting concluded with formal business – all the accounts were adopted subject to no dividend being paid – the retiring directors were re-elected, Messrs Tick, Tock and Junior were continued in office as auditors and the meeting was closed with a vote of thanks to the Red Queen.

The Meeting Breaks Up

The Red Queen departed in her carriage and, as the carriage rolled away the meeting broke up, and those who had attended it gathered into small groups in each of which, if one could judge by the way arms were waving about, a heated discussion arose.

Eventually we came to a group where the Jack of Hearts stood crestfallen in the centre, alternately listening to comments by those upset by the 'no dividend' declaration and receiving sympathy from others on the task which the Red Queen had placed upon him.

'How can I live without my hookah,' wailed the Caterpillar, 'and how can I pay more tobacco tax if I have no dividend?'

To such unanswerable questions the Mad Hatter merely added his plaint: 'My business will be ruined if I have to charge more than 10*s* 6*d* for my hats; no one will buy. And if my business fails, how am I to live without a dividend?'

The March Hare was, however, endeavouring to console the Jack of Hearts. 'Can you not find someone who is good at "cooking" accounts to make up one set of accounts from them all next year?'

The Jack shook his head sadly. 'Such a procedure is, of course, impossible, quite unprofessional, quite unprofessional. . . .'

Alice tugged my sleeve. 'Could *you* not help the Jack with his problem?'

The New Accounts

I looked at the little imp in sudden panic. Was she going to involve me in more controversy, just when I was having a peaceful, quiet time? Unfortunately the Jack had heard her, too, and was looking at me rather as a faithful spaniel would look expectantly to his master for a reward.

However, I had to make an effort to help the accountant in his troubles.

'There is one possible way, which occurs to me, in which you might be able to overcome your difficulty.'

I paused.

'I should be ever in your debt, sir.' The Jack's face cleared and he waited expectantly.

'I would suggest that you divide your accounts into sections equal in number to the number of accountants, and give each accountant one section to prepare. When the sections are completed, you can add them all together and so obtain the one set of accounts.'

'Bravo,' Alice excitedly clapped her hands. 'That's the solution.'

But the Jack was not so enthusiastic. 'Would they balance?' His voice sounded suspicious.

'That is a difficulty, certainly, but you could put any differences to a suspense account and carry them forward.'

The Jack stood, slowly turning the idea over in his mind, a far-away look in his eye.

I thought it would be wise to leave the matter there, and turning to Alice suggested that it was time for us to be going.

On the way home I kept thinking of the look on the Jack of Heart's face and finally said to Alice, 'After all, I think I would like to come to next year's meeting to see the set of accounts which the Jack manages to produce'.

THE VALUATION OF HOLDINGS IN PRIVATE LIMITED COMPANIES FOR PURPOSES OTHER THAN PROBATE–I

by W. G. CAMPBELL, B.A., F.C.A.

INTRODUCTION

THE valuation of shares in private limited companies is one particular aspect of the more general subject of the valuation of unquoted shares. The distinctions between an unquoted public company, a private company, and an exempt private company, are legalistic only, depending entirely on the composition of the register of shareholders, and in no way affecting the size or nature of the companies concerned. Boundaries so little marked that they can be crossed almost by accident can be ignored. A paper such as this, which must of necessity be limited as well as general in its scope, must endeavour to set out principles which can be applied to all unquoted shares, even though private companies including the very numerous exempt private companies, are ostensibly the class selected for our discussion.

Valuations within this class fall naturally into two divisions, in the first of which commercial principles are largely applied, and in the second of which principles laid down by statute or in case law are followed. A valuation for estate duty purposes is the most common example of the latter division, involving the preparation of a share valuation followed usually by a defence, more or less protracted, of that valuation by an accountant in the role of advocate. In more general cases, the accountant is acting as an arbitrator (although not, except rarely, in the legal sense of that term), since, in most cases, he decides on his own judgment as an expert without dispute or differences between the parties interested, and without hearing evidence or arguments on either side. He is, in fact, an umpire, whose decision will, normally, be accepted as final.

There must, for these reasons, be a psychological difference in his approach to each of the two categories of valuation, and this difference is important enough to justify the division of a discussion of this nature, although it is obvious that the material principles to be applied should be common to both categories. The strategy is the same but the tactics will be different.

A share transfer which involves transfer of the control of a company is a special case. It is less a question of arriving at a valuation than of reaching agreement on a price for the shares between two parties who will usually have separate advisers to each of whom the attitude of advocate is more appropriate than that of an appraiser.

It is convenient that consideration of the principles relating to the valuation of private companies' shares for general purposes other than probate should precede the separate paper devoted to probate valuations.

Accountancy being a mixture of art and science there are certain activities in our profession where science, more or less exact, predominates, and others in which the application of art is essential for the satisfaction of the accountant, if not invariably of the client. The valuation of shares in private companies is, without doubt, one of the latter activities. Cases are rare where inflexible application of rules will give a satisfactory result, nor can rules, however generally adopted, assure a fair standard of value applicable to individual circumstances. A fair valuation is nearly always relative and is always elusive.

That a completely satisfactory valuation is so hard to attain is natural if the background of the private company is considered. It is almost traditional in such companies for accounting to be conservative, which, in this context, means cautious, usually excessively so. Whatever may have been the case in the past, accounts of companies today are presented with the intention of approaching accuracy as closely as is practicable. Many accountants and some economists agree with this as a general statement and we need not linger now to enter the perennial, and interminable, argument with many economists and some accountants, who would dispute the use of the word 'accuracy' in this connexion.

There is, however, a tendency for some private companies, if they have led a successful existence for a considerable time, to prepare accounts which, again as a general rule, may be impeccable from the statutory and accountancy points of view but are not entirely realistic in all the details of the picture presented.

In addition, the personal element may bulk so largely in a valuation of a private company's shares that it is very difficult for an accountant, not fully conversant with the company's affairs, to make a fair valuation of the shares. The usual practice whereby the auditor is authorized, in the articles or by special appointment, to make valuations, does materially assist the appraisal of the value. He will, if his association with the company is of sufficient duration, be able to give due weight to the personal elements of his problem while an independent valuer must run the risk of erroneous judgments due to his unavoidably superficial knowledge of the circumstances.

In the background of all public company share transactions must be the general conditions prevailing at the time in share markets. This background exists no less in the valuation of private companies' shares and of other unquoted shares, but its relative importance to the problem must not be carried too far. It is apparent that, after allowing for many extraneous conditions, international, political or sometimes

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merely fashionable, which may affect the markets for quoted shares, the investor in an established company first looks for earnings sufficient to satisfy his desire for a yield on capital invested commensurate with the risk involved; he gives less consideration to the asset values when he is convinced that the earnings-cover for this invested capital is reasonable.

Share market quotations, which, it must be remembered, are 'prices' not 'valuations' appear to follow the generally accepted principle that the worth of the assets of a company is determined by what these assets are earning or are likely to earn for the shareholders.

The merits of this simplification are not always apparent to shareholders in a private company, who are not usually so remote from ownership as in a public company. They may have their own views as to the intrinsic value of the assets, irrespective of whether these assets are employed to the best advantage or not.

GENERAL PRINCIPLES

The basic principle in share valuations of all kinds may be stated as the determination of a fair price for the shares as between a willing buyer and a willing seller, the business being regarded as a going concern. The expression 'going concern' does not merely imply continued existence, it implies also the continuance of a healthy existence. It implies that the company is in possession of such resources, and is being managed in such a way, that it earns a commercial reward for the capital invested, that reward including compensation for the general risks of the trade and the specific risks of the company, as well as adequate remuneration for all persons who are employed in the business; if the company's earnings are insufficient to maintain such commercial reward, it cannot be regarded as 'a going concern'.

Valuation of the shares of private companies becomes necessary, apart from estate duty assessment, in various circumstances which fall into two categories, of which the following are examples:

(*a*) In circumstances which do not affect control of the company:

- (1) Shares involved in schemes for reconstruction of a company or for readjustment of 'rights' between different classes of shareholders.
- (2) Shares of members dissenting from reconstruction schemes.
- (3) Shares compulsorily transferred under the articles (where no value has been arbitrarily fixed) such as the qualification shares of a retiring director or, on occasion, shares of a deceased shareholder.
- (4) Shares transferred for a nominal consideration in which case the valuation is required for the assessment of stamp duty on the transfer.
- (5) Shares in a company in a state of suspended activity or actually moribund.

(*b*) In circumstances which affect control of the company:

- (6) Shares giving immediate control, with or without an option to acquire further minority shares in the future.
- (7) Shares not giving immediate control but transferred with an option to acquire further shares which will give control in the future or shares purchased under such options.
- (8) Shares compulsorily acquired under Statute by a department of State or a public authority.

It is not practicable in a short paper to deal with the varying circumstances applicable to each case; further comments will be made later on some of the special matters involved.

The capital of a private company may comprise more than one class of share, entailing modifications in methods of valuation for particular classes. The general principles and the background of the company remain the same for all shares and many of the considerations which follow will be applicable to the different classes. It will be convenient to consider the case of equity shares first at some length, leaving particular aspects relating to other classes to be separately dealt with later in the discussion.

VALUATION OF EQUITY SHARES

The approach to a valuation of shares in a private company is much the same as that which would be adopted in the preparation of a prospectus, that is to say, careful attention must be given to the past history and present background of the company and statistical details must be prepared in respect of the asset position at the relevant date together with a review of the trading results over a period of years. The length of the period will be chosen so as to give a representative survey over the years immediately preceding the date of valuation. In modern unsettled conditions too long a period may easily be misleading by going back to years in which conditions existed which were radically different from these ruling today. The concept of a natural trade cycle, regular for a specific type of business, is no longer of practical assistance, so that, while a good profit record over many years is a satisfactory proof of the stability of a business, the valuer should concentrate on the more recent period, being basically concerned with the present.

In the first instance, the valuer must carry out an examination of the memorandum and articles, which should not be confined only to sections devoted to share capital and the rights of shareholders. In private companies the rights of directors are quite likely to be equally if not more important.

He will then proceed to an examination of the assets position as disclosed by the last accounts of the company, and a summary of trading results for the determined period. The asset position may be dealt with first, not because it is more important, but because it may provide some of the evidence required to indicate the adjustments necessary to the summary of trading results, besides affording an immediate indication of certain necessary aspects of the company's affairs.

Assets Statement

The assets statement will be based on the most recent audited balance sheet (with any notes or qualifications) and may now be considered in some detail.

Investments in subsidiaries

While it is not usual to find subsidiary holdings in private companies, such cases do occur. A preliminary step to valuation is a consolidation, in the usual manner, of the group concerned, omitting members of the group which are not operating. The consolidated balance sheet, with consolidated profit and loss accounts for the requisite period, will then form the basis of the valuation. Shares in subsidiaries excluded from consolidation will be considered as investments not employed in the business.

Current liabilities and provisions

The balance sheet figures may be accepted without alteration in the absence of unusual circumstances, but a scrutiny of the 'provisions' may be advisable. It is very evident that Sir Russell Kettle's warning at the autumnal meeting in 1947 was justified, since the definition in the Companies Act, 1948, of the word 'provision' has created difficulty in using that word in its more widely accepted sense. Even in the accounts of public companies the use of the word with a non-statutory meaning is frequently found.

Arising out of this comment it may be noted that the reserve for future taxation, or provision for current taxation, or both, may call for revision and adjustment so that only the actual liability at the balance sheet date is included.

Fixed assets (tangible)

It is preferable to have land and buildings, whether freehold or leasehold, separately valued where this asset is relatively important, or where the number of shares involved is large: usually, unless control is passing with the shares, the cost of valuation of the asset renders such a step unjustifiable. The balance sheet amount should be taken in the absence of a separate valuation unless there is evidence of abnormality in the methods of depreciation adopted by the company.

If the circumstances are such as to require it, in the interests of fairness, an adjustment (which must be arbitrary in its nature) based on the date of acquisition, original cost and adequacy of maintenance compared with present-day values, if these can be ascertained, should be made at the time of the share valuation.

Much the same procedure will apply to items such as plant and machinery, furniture, and similar fixed assets; in the absence of a separate valuation, the depreciation rates employed during the period of review must be looked upon as the evidence most indicative of the closeness of the approximation of the net book amount to a reasonable value. It is usual for private companies to depreciate fixed assets very heavily and close scrutiny of this charge, over as long a term of years as is practical, is invariably necessary.

Investments

Shares and securities which are quoted will be valued at the middle price if held for permanent investment, or at lower price if included with the current assets. Unquoted stocks or shares, when the amount involved is material, must be the subject of a secondary valuation by methods similar to those used for the main valuation. In cases where the number of shares concerned is not important, such evidence as is available in the last balance sheet and accounts of the company or business concerned may be accepted.

If the theory that value is determined by earning capacity is adopted, a distinction must be made between assets which earn by trading or manufacturing activity and those which are expected to produce income independently of such activity. If material therefore, any assets of a private company which belong to the latter class would be segregated from the other tangible assets. Such assets will include investments or loans (other than those of a temporary nature) and amounts expended with the intention of creating a future advantage or asset. Segregation is not called for unless the assets are material and are separable from the working capital of the business.

Current assets

As a general rule the balance sheet values may be accepted without extensive investigation; stock-in-trade and work in progress will be examined in connexion with the trading records. As a result of this examination the person valuing the shares will be aware of the method of stocktaking and the consistency or otherwise in application which will determine his opinion about this asset. An accountant other than the auditor must of necessity devote close attention to this matter; an auditor who is valuing the shares will have already done so.

Difficulties, which may be awkward to deal with when material, may occur in a private company's balance sheet in relation to loans to associated companies or loans to directors or persons employed, sometimes free of interest. If the loans are not temporary they should be considered as investments. In any case diplomacy must be necessary in order to form an estimate of the provision, if any, required against possible loss; if the loan is to an associated company, an estimate of the extent of security must be made from its last balance sheet. The position as regards trade debtors can usually be ascertained without trouble.

Intangible assets

The question of goodwill is dealt with later, but, whatever the method of goodwill valuation adopted by the valuer, any item of goodwill shown on the balance sheet will be eliminated in marshalling the assets, together with items of patents, trade-marks, and so on, which are normally so analogous to goodwill that their values may be considered to be included therein.

There should also be eliminated any expenditure, appearing as an asset on the balance sheet, which has not brought into existence, at the date of the valuation, an advantage for the enduring benefit of the business. Such assets may have a value apart from the goodwill, but it is more prudent to include them in a 'goodwill' composite item. If there is expenditure on a potential asset or advantage, the results of which are not yet available, the item may at this stage be

considered as an investment, at cost or suitable valuation.

When patents and similar rights have a value independent of the trading of the company, that is to say when they can be realized separately and, therefore, are not entirely intangible, they ought not to be classed with those which are inseparable from the business as a going concern. In such cases, if material, an independent expert valuation may be necessary, and the amount will be included with the tangible assets.

Marshalling the Assets

After consideration of the balance sheet items on the lines suggested, it will be possible to marshal the assets into three groups.

The first group will consist of the tangible assets directly employed in the business, which fall naturally into two classes:

(*a*) Net fixed assets, after eliminating the values of investments not employed in the business permanently held under this heading, whether quoted or unquoted, and after deducting long-term liabilities.

(*b*) Net current assets, after eliminating any permanent investments included in current assets, and long-term loans, and after deducting actual liabilities.

The second group consists of investments not directly employed in the business whether regarded as fixed or current assets, the value of which must be included in the final value of the shares concerned but possession of which produces income which is independent of earnings of the company from the trading business on which it is engaged.

An important factor in estimating the risk attaching to an investment in shares in a limited company, is the existence or otherwise of surplus funds, usually taken to mean assets which could be distributed to shareholders without detriment to the earnings of the company as a going concern. The extent of the value of the net current assets, which will be further augmented by assets of the second group, is of significance in this estimate.

The third group consists of the intangible assets, the balance sheet values of which will be replaced by an amount computed by one or other of the methods of determining goodwill.

Goodwill

It is no longer possible to postpone a discussion on this item which is vital but difficult to deal with in all valuations of shares. The problem has been given great attention by English accountants during the last twenty-five years, the protagonists in the discussion being Sir Arthur Cutforth, P. D. Leake, and H. E. Seed, who have concentrated on the commercial worth aspect. It is on this aspect that we may concentrate for our purpose, however interesting and important the judicial dicta on the intrinsic meaning and elusive nature of the concept of goodwill may be. P. D. Leake would receive agreement from most accountants to his concise statement:

> 'Without the reasonable probability of the earning of future super-profit no present value in the form of goodwill can exist.'

The idea of super-profits is of comparatively recent origin; they are defined by H. E. Seed as

> 'profits in excess of those required to provide an economic rate of remuneration for all labour and capital used in a business'.

Formerly the valuation of goodwill was estimated from a formula based on a specific number of years' purchase of past net profits, usually the average of a period of years, the number being arbitrarily chosen. This method was so generally accepted that tables of the number of years' purchase applicable to various classes of business were drawn up and were widely used. It still lingers on in the minds of some shareholders of private companies (especially if the company originally purchased goodwill on this basis), so that a valuer may have, in addition to the valuation problem, the necessity of satisfying such persons that other methods of valuation of goodwill exist, and are no less fair as a means of determining a fair value.

The more advanced idea of 'super-profits' basis for goodwill has been favourably received, although in its simplest form it entails an estimate, not always easy to make, of the probable duration of the super-profits and, consequently, the number of years' purchase appropriate to a specific case. This duration factor is a result of economic laws which tend to prevent super-profits from being permanent, and which ensure that the permanence diminishes as the super-profits increase. The relative probability of duration as between different types of business is largely a matter of opinion, and the number of years' purchase may be so arbitrary that justification of a valuer's decision, if challenged, is not always convincing.

To meet this objection to the basic theory certain methods have been suggested. Sir Arthur Cutforth put forward a sliding scale method which recognizes the economic law that the probable duration of super-profits is likely to diminish as the super-profits increase. Even established monopolies are subject to the general law, in addition to dangers from laws other than economic, but, fortunately, few private companies operate monopoly businesses. The sliding scale method divides super-profits into stages with a diminishing number of years' purchase applied to each successive upward stage. It allows for the economic law but the choice of periods must still be arbitrary.

P. D. Leake was the chief advocate of a method which is in the nature of an annuity valuation. His thesis is:

> 'The value of goodwill being nothing but the present value of super-profit expected to arise out of the business in future years, it is clear that as those profits arise in future years the value of the original goodwill which was purchased will be gradually worked off and will ultimately disappear. It is true that valuable goodwill may then exist, but this will have arisen out of the good work done in the meantime. . . .'

An example may help to show the various methods; if we assume super-profits of £9,000, and an expectation of 10 per cent return on capital invested:

	£	Goodwill £
(a) *Simple super-profits method:*		
£9,000 at, say, 5 years' purchase		45,000
(b) *Sliding scale method:*		
£3,000 at, say, 5 years' purchase	15,000	
£3,000 at, say, 4 years' purchase	12,000	
£3,000 at, say, 3 years' purchase	9,000	
		36,000
(c) *Annuity method:*		
Present value of an annuity of £9,000 for 5 years: 10 per cent interest ..		34,117

It will be noted that all these methods are based on an arbitrary determination of the probable duration of super-profits.

Recent years have seen another approach, different both in reasoning and application from the previous concepts, to which Thomas Greenwood gave publicity nearly twenty years ago, and which H. E. Seed elaborated in 1937. The latter wrote:

> 'Since then the purchaser of goodwill must perforce be the purchaser of a business, it is the price he is to pay for the business which primarily concerns him, rather than the price he is to pay for goodwill as such. The matter, in which the purchaser is primarily interested is the rate of return, which the profits which he expects the business to earn (after providing for his own remuneration if he is to work in the business) will yield on the price he is paying.'

This approach to the problem adopts Lord Macnaghten's description of goodwill as 'the very sap and life of the business without which the business would yield little or no fruit', and refuses to consider a separate value for goodwill apart from the value of the whole tree. It obviates guesses, for that is what they are, as to the probable duration of super-profits. Since, in the case of private companies, no satisfactory comparative standard for estimation of this duration is likely to be available, and the adoption of this approach leaves the determination of goodwill value to depend only on one fluctuating factor, namely, the yield on the purchase price which the earnings represent, it is a suitable method for private companies' share valuation.

Later, consideration will be given to the means of determining appropriate rates of earnings suitable to give effect to this method of treating goodwill as a general rather than as a particular item of the assets, the total value of which is arrived at by what is usually known as capitalization of the earnings.

If we adopt this general method, assuming that a company earns trading profits of £20,000, and the expected rate of earnings is 10 per cent on the price paid, the total value of a company's business assets would be £200,000. If the net tangible assets are valued in excess of that amount, no goodwill exists, and a negative goodwill may be said to be reducing their value to the extent of the excess: if the net tangible assets are less than £200,000, goodwill exists to the amount of the difference, giving correspondingly increased value to these assets.

Refinements of the general method exist, one of which differentiates between earnings from tangible assets and earnings attributable to the goodwill, or intangible assets. It is based on the consideration that the higher the proportionate value of the tangible assets to the total value of the business, the higher should be that total value.

As an example, a company may have net tangible assets of £100,000 with profits of £24,000. If a return of 10 per cent is regarded as a reasonable one for the purchase price represented by the value of the tangible assets, the profits attributable to these assets will be £10,000. The remaining profits of £14,000 may be considered as derived from the intangible assets, in respect of which a return of 14 per cent on the purchase price might be regarded as appropriate. The intangible assets, that is, the goodwill, would thus be valued at £100,000 which, added to the tangible assets, results in a total price of £200,000 for the whole business.

The drawback to this method is that two appropriate rates have to be estimated but it certainly gives recognition to the fact that tangible assets can be sold separately and are reasonably permanent, neither of which advantages normally adheres to intangible assets.

Another variation in method is applicable to cases where there exists a material difference between the amount arrived at on a capitalization of earnings and the value placed on the tangible assets. In such cases the difference can be, at least partly, reduced by taking the mean between the tangible assets value and the yield value.

For a company with £100,000 capital in £1 shares, making £7,000 profits, if earnings of 14 per cent on capital invested are regarded as appropriate, a value of 10*s* per share results on application of the earnings basis; this value is unrealistic if the balance sheet value of the net tangible assets is considered reasonable and approximates to the amount of nominal capital.

In such cases a share value of the mean between 10*s* and 20*s* is perhaps, if still only an estimate, a closer approach to the 'fair' value, however that word is interpreted.

Summary of Trading Results

The survey of past results will be directed to obtaining evidence and data for a reasonable judgment to be made of the current maintainable profits earned by the company, adjustments being made, if necessary, suitable to the actual circumstances prevailing at the date of the valuation.

The general principles in preparing the profits statement will be those applicable to prospectuses, which are fairly well established in the profession. The period chosen for the survey need not, usually, be so long as for prospectuses and need not necessarily be unbroken, since it is often safer to leave out abnormal years affected by exceptional circumstances. A period of from three to five normal years is usual in modern conditions; in certain cases it may be essential to go further back, but whatever period is

chosen, the last two or three years will certainly be the most useful in determining the level of current profits and in showing whether the company's activities are growing or diminishing.

Matters which will usually require consideration, for adjustment purposes, may now be commented on.

Remuneration of management

Difficulties are usually found in connexion with management charges in private companies' accounts. These charges tend to bear little resemblance to what might be regarded as a notional market remuneration for the services rendered. The valuer cannot escape a difficult and invidious attempt to eliminate these charges, and substitute a more reasonable figure, if he is to arrive at a commercial profit for the purpose of his survey.

Transactions not at arms length

A similar necessity exists to scrutinize all dealings between the company and its associates, whether within the company or outside, which are not arms-length transactions, that is, when the consideration given or taken is not a true commercial consideration, for goods or services, in the circumstances. It is easy to eliminate an amount but always very difficult to replace with a more reasonable one, especially when related to past events. When material items of this kind occur very frequently in the survey of profits, it may be necessary to look less to the earnings aspect than to the intrinsic asset position for valuation purposes.

Depreciation of fixed assets

It is impossible here to discuss adequately the difficulties arising from the different policies which private, to say nothing of public companies adopt for depreciation. The policy tends to be based on custom or caution, usually both, and the resultant charge against income may be even less realistic than the management charge. It will be obvious in many cases that excessive depreciation, from the point of view of provision for the expectation of life of an asset, has been charged, and in such cases, at least where the share valuation involves a material amount, an attempt to adjust the profits statement seems to be justified. There is still, however, the replacement aspect, which may reasonably be evaded in a paper such as this, at least until the battle is more generally joined, and this aspect is in the minds of some boards of directors, however little they would welcome its appearance on their balance sheet at present. If the past and present policy has been to depreciate heavily, it is more difficult to justify adjustment of past profits unless the policy is to be changed. It may be suggested, therefore, that adjustments to depreciation should be sparingly made and only if the valuer is sufficiently sure of his ground to substitute a more realistic alternative, such as a wear and tear basis or straight-line depreciation.

If the assets have been revalued the depreciation charge for the future will be altered and the estimate of maintainable earnings must be adjusted.

Stock-in-trade and work in progress

The valuer will be guided by the principles which apply equally to all trading accounts, whether for balance sheet or prospectus purposes. During the period under review the methods of valuing stock and work in progress must remain consistent; if they have been varied at any time, consequential adjustments will be made to carry the variation back to the beginning of the period. A valuer not previously acquainted with the company's business will be obliged to make a close comparative survey of the trading or manufacturing accounts for the period in order to detect results which may point to material variations in stock-taking.

Taxation

For the purpose of preparing a profits statement it is permissible to eliminate direct taxation, both profits tax and income-tax; the distribution element of the former is so dependent on the appropriation of profits as to merit inclusion as an appropriation itself. The fact that the divisible profits of a trading company cannot properly be ascertained without first deducting the basic profits tax arising in respect of an accounting period still remains, but it is more convenient to ascertain the results before all taxation as a means and basis for computing the current maintainable profits.

Repairs and maintenance

The scrutiny of this item demanded by present conditions will depend on its relative importance and no definite rules can be given except that some kind of spread-over is inevitable in material cases during a period, such as the last five years, in which a regular policy of maintenance could not be maintained.

Not only in this instance but in general it is wiser to confine adjustments to items which manifestly distort the trend of profits. It is possible to regard certain abnormalities as normal for any business, in that their occurrence, or recurrence, is bound to happen sooner or later. The unusual should not, without consideration, be treated as abnormal.

Income excluded

The usual methods of adjustment will have dealt with non-recurring material items, but it is necessary to consider that portion, if any, of the company's income which is derived from funds invested outside the business, since earnings are, generally, interpreted as the results of the trading activities, apart from other sources of income, at least for the purpose of valuation based on their capitalization. Some companies combine trading operations with the holding of investments and it may be impracticable to draw distinction between the two activities, but for cases in which the investments are more or less permanent they represent employment of surplus funds outside the business and their value, and the income derived from them, cannot be related to the trading of the business. Income from this source should, therefore, be deducted in the earnings statement, the value of the assets concerned having been already segregated. *(To be concluded.)*

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

TWENTIETH AUTUMNAL MEETING IN TORQUAY

An Outstandingly Successful Occasion

In glorious weather, the twentieth autumnal meeting of The Institute of Chartered Accountants in England and Wales took place in Torquay on Thursday, Friday and Saturday, October 11th, 12th and 13th, 1951, at the invitation of the Bristol and West of England Society of Chartered Accountants, and was attended by about 600 members and ladies.

There is no doubt that this meeting upheld all the traditions of its predecessors for being a time of great professional value and of much social enjoyment to all those who attended.

Most members arrived in Torquay on the Wednesday afternoon and evening; despite the possibility of military manoeuvres, which were then in progress, delaying those who came by road, no major delay from this cause was reported.

Arrangements for registration on arrival worked smoothly; during the whole of the period of the meeting information was available from bureaux at the Palace Hotel, and at the Pavilion.

The proceedings opened officially on the Thursday morning when members were welcomed in the Pavilion by Alderman E. G. Ely, J.P., Mayor of Torquay, who was introduced by Mr C. W. Boyce, C.B.E., F.C.A., President of the Institute, who presided.

Address by the President of The Institute

In the course of the presidential address, Mr Boyce said:

Sixty-five years ago – in 1886 – the first autumnal meeting was held in Manchester under the presidency of the late Mr Frederick Whinney and since that time eighteen further meetings have been held at varying intervals of two to four years, with the exception of the periods of the two world wars.

And now we are assembled for the twentieth autumnal meeting in the delightful town of Torquay at the invitation of the Bristol and West of England Society of Chartered Accountants. This is not the first occasion upon which the Bristol and West of England Society has acted as host at an autumnal meeting, a previous meeting having been held at Bristol in 1926.

Our best thanks are due to the President, Mr Stanley W. Cornwell, the Hon. Secretary, Mr Croxton Smith and the members of the Bristol and West of England Society of Chartered Accountants for all the time and thought they have put into the arrangements to make our visit to Torquay a happy one.

Difficulties arising from a clashing of dates of our autumnal meetings with those of the political organizations have not been unknown in the past, but the Bristol Committee have had an additional headache in having to run this meeting in the midst of a vital election campaign.

Autumnal Meetings Since the War

Up to the outbreak of the Second World War, it was customary for autumnal meetings to be held in one of the principal cities in the area of the district society acting as host, but since the termination of that war conditions have altered to such an extent that it is no longer possible to obtain suitable hotel and other accommodation in most of the big cities. And so the venue of these meetings has had to be changed to one of those pleasure resorts whose principal industry in the 'off season' is to cater for conferences and suchlike gatherings. Perhaps we are only taking a leaf out of the book of the trades unions and the political organizations who seem to have a flair for choosing the most attractive surroundings. The Bristol society is fortunate in having in its area a town like Torquay, so delightfully situated and with such a wealth of charming surroundings, and I am sure we shall all benefit in spirit and in health, and, I hope, increase our store of knowledge, from our visit here.

Ladies Entertained at Social Functions

From my experience of the difficulties encountered in staging the autumnal meeting at Harrogate two years ago, I came to realize that there were two very good reasons why it was no longer possible to hold meetings in most provincial industrial cities, bearing in mind that in these days the hotel accommodation is barely sufficient to meet the needs of commercial visitors and is quite inadequate to cope with a sudden influx of casual visitors such as ourselves. The first reason is that following the admirable precedent set by the South Eastern society at Brighton, we now entertain our ladies to all the social functions and I am sure none of us would wish, even if we were allowed, to revert to the selfish days of the past. The second reason is that we must not forget that whereas the membership of the Institute was approximately 7,000 when we were entertained at Bristol in 1926, it had risen to 15,260 at January 1st, 1951, and is now over 16,000.

On this occasion the available accommodation has been taxed to the limit and it is a matter of regret both to our hosts and the Institute that applications from a number of our members who would have wished to be present have had to be declined. In fact, the board 'house full' went up several months ago.

At this autumnal meeting over 300 members are present, representative of membership from all parts of the country and including four of our lady members to whom I would extend a special word of welcome.

The Papers

The same procedure as that adopted at Harrogate will be followed for the most part at the two conference sessions. The papers prepared by Mr Hamilton Baynes and Mr W. G. Campbell on 'The valuation of holdings in private limited companies' and by Mr E. G. Turner on 'The effects of taxation on industry and the individual' have been circulated in advance and the authors will either read them or give a short résumé of them. It is hoped that as many members as possible, so far as time permits, will contribute to the discussions which follow. Two most interesting subjects have been chosen and we can look forward to interesting debates. Later in our proceedings we shall have an opportunity of extending our thanks to the authors of the papers for the time and thought they have put into their preparation.

In his address at an autumnal meeting it is customary for the President to make brief references to matters of domestic interest to the Institute and express some personal views on current financial and economic problems.

THE COUNCIL OF THE INSTITUTE

The past year has been one of exceptional activity on the part of members of the Council but even the synopsis of the Council's work on behalf of the Institute which appeared in the annual report and in the voluminous appendices which followed it, can give no real indication of the work that has been done. During the year 1950, there were 11 full meetings of the Council and 173 meetings of the various committees and sub-committees, and when it is mentioned that the attendances at meetings of the Council and of committees total 88 per cent of the possible attendances, it can, I think, be claimed with some pride that the members elected to represent you on the Council have not neglected their duties.

At the annual general meeting held in May 1950, a resolution was passed that, subject to the availability of sufficient suitable members being willing and able to serve, five seats on the Council should normally be occupied by members not in practice.

The resignations of two of the older members of the Council, Mr Gibson Harris and Mr Charles E. Fletcher who had served with distinction since 1920, and 1932 respectively, provided the opportunity of bringing in two more members who are not in practice, and there are now four such members on the Council. With the increasing demand for the services of chartered accountants to fill responsible positions in the world of commerce and in the nationalized industries, it is important that the views of our members who have adopted a commercial career should find expression in the deliberations in the Council chamber and in committee, and the Council is very grateful for the assistance it receives from the members not in practice.

INTERNATIONAL CONGRESS ON ACCOUNTING

An event of world-wide importance to the accountancy profession will take place in the week commencing June 16th, 1952, when the Sixth International Congress on Accounting will be held in London. The previous international congress (the fifth) was held in September 1938 in Berlin, during a period of acute international tension. The Institute delegation was led by the late Sir Charles Palmour, the President of the Institute, who also read a paper: other members of the Institute who submitted papers were Sir Nicholas Waterhouse, Sir Harold Howitt and Mr Stuart Cooper.

At the Sixth International Congress the important role of President of the Congress will be undertaken by Sir Harold Howitt, and the Congress council are to be congratulated on having secured such an outstanding personality in the accountancy profession. Sir Harold's reputation extends far beyond the confines of this country and I am sure his acceptance of the office will be received with world-wide acclamation.

Arrangements are in train for papers on interesting subjects to be given and members of our Institute will play their part in the introduction of some of them.

The sponsoring bodies are putting in a lot of hard work in the endeavour to make the Congress a success and to ensure that our overseas visitors receive a hearty welcome. Their wish is that when those visitors return home they will feel that the long journeys they have undertaken will have been well worth while. Needless to say, the Congress council are looking forward to receiving enthusiastic support from the members of the sponsoring bodies.

EDUCATION FOR THE PROFESSION

A subject ever present in the mind of the Council is the education and training of those who aspire to become members of the Institute and who enter into service under articles with a practising member of the Institute.

Since its publication in December 1949, many references have been made in the annual report of the Institute and elsewhere to the report by a Special Committee on Education for Commerce set up by the Minister of Education under the chairmanship of Sir Alexander Carr-Saunders.

The Council viewed with grave concern many of the recommendations made by the Carr-Saunders

Committee and, in particular, those recommendations which related to the training, education and examination of candidates for membership of our Institute. When it became evident that the Minister of Education intended to implement some of the recommendations of the Carr-Saunders Committee, the Council prepared a report on 'Education and training for membership', which was issued in March 1951, and which was available in booklet form to all members without charge on application to the offices of the Institute. A brief résumé of the report was circulated to all members in March 1951.

The Council's Report

Now this report of the Council is a comprehensive document; it covers the whole field of education and training of articled clerks and, to quote the final words of the report, it was designed to show that

> for reasons which are set out briefly in this report, the Council of the Institute finds itself obliged to state that the recommendations of the Carr-Saunders Committee are wholly inappropriate for persons wishing to become members of the Institute. If put into operation in relation to such persons the recommendations would undermine the Institute's whole system of training under articles.

Since the issue of the Council's report on 'Education and training for membership', a deputation from the Council has attended at the Ministry of Education for a meeting with senior officials of the Ministry with the object of removing some misunderstandings which appeared to exist regarding the position of the Institute and the proposed county colleges and the Carr-Saunders report on 'Education for commerce'. The meeting took place in the most friendly atmosphere, and after reviewing the Institute's method of training articled clerks, it was clearly understood that the Ministry had no intention of interfering in any way with the profession and would not consider any move which might affect the interests of the Institute without full prior discussion with the Institute.

Role of Students' Societies

The role of the students' societies in training articled clerks for the profession is one to which the Council attaches great importance. The covenant now inserted in all articles of clerkship – that the articled clerk will become a member of the local students' society – not only assures the advantages of such membership for the articled clerk himself but is also of great assistance to those responsible for the management of the society. The committee of the students' society is able to budget accurately for the number of new entrants and arrange its programmes and tuition classes accordingly.

I hope that the interesting booklet on 'The Place of the Students' Societies in the Education of Articled Clerks', which was issued by the Council in August 1951 for the use of the committees of district and students' societies, will be found to be useful to all who are actively interested in the running of a students' society.

Problem of the 'Distant' Student

The problem of the 'distant' student will always be with us as it is obvious that the articled clerk in the small town away from the headquarters of the nearest students' society cannot derive full advantage from his membership. Residential courses which are now being run by several of the district societies go some way towards solving the problem, and I hope our members in the small towns will encourage their articled clerks to take advantage of the opportunities offered by a residential course if one should be held in their area.

The Intermediate and Final Examinations

Since the Second World War the percentage of passes in both Intermediate and Final examinations has been relatively low and this has led to a certain amount of Press comment suggesting that the marking of the papers had become more stringent and that a higher standard from all candidates was expected by the examiners. This is not so. No alteration has been made in the method of marking the papers and in my view the lower percentage of successful candidates is purely an aftermath of the war and a feature by no means confined to the Institute. Concessions were granted to those returning from national service and these concessions often resulted in a reduction of the time spent on practical work in a practising accountant's office. In many cases also, exemption from the Intermediate examination was granted. In the light of experience it seems doubtful whether the exemption from the Intermediate examination was in the best interests of the articled clerk, for the examination results reveal a much higher percentage of passes among candidates generally who had passed their Intermediate examination. In the future there will be no exemption from the Intermediate examination.

The latest examination results, those for the examinations held last May, show a slight improvement on their predecessors and it is hoped that as the number of candidates affected by national service diminishes there will be a progressive increase in the percentage of passes.

SUMMER COURSE

Passing from matters relating to the education and training of articled clerks, I would mention the Institute's scheme of refresher courses available to members of the Institute whether in practice, employed in practising members' offices or engaged in industry or commerce, which are held at Oxford and are known as summer courses.

For five consecutive years a summer course has been held at Christ Church, Oxford, and the fifth of the series held last month was, I think, as instructive and enjoyable as any of its predecessors. As your President, it was my privilege to preside at this course and I enjoyed every minute of it. In these days we have, all of us, the greatest difficulty in

keeping abreast of the problems which beset a post-war world and the opportunities offered by a summer course for an interchange of views with members from all parts of the country and in all branches of the profession are of inestimable value.

The proceedings at the summer course are being fully reported in *The Accountant* and it is therefore unnecessary for me to refer to them in detail, but I would mention a new feature at this course which took the form of a debate on a highly controversial subject. The motion was:

> That this course deplores the attempts now being made in certain quarters to discredit the accountancy profession for not departing from historical cost in arriving at business profits.

The lively debate which followed was stimulating and gave the members of the course an opportunity of an interchange of ideas on a subject which is much in the public eye at the present time.

At the guest night dinner, I had the opportunity of expressing the sincere thanks of the Institute to the Governing Body of Christ Church for the wonderful facilities they had granted to us for holding our summer courses in such tranquil and historic surroundings and I am glad it was possible for Dr John Lowe, Vice-Chancellor of Oxford University and Dean of Christ Church, to be present on that occasion and so enable me to express to him personally our appreciation of the facilities placed at our disposal.

I am glad to say that, as we behaved ourselves so well on this and on previous courses, the Governing Body has agreed to the holding of another course at Christ Church in September 1952, and there seems every probability of summer courses at Christ Church becoming an annual event.

TAXATION

The report of the Tucker Committee on the Taxation of Trading Profits was presented by the Chancellor of the Exchequer to Parliament in April last and will, no doubt, have been read by everyone present in this hall. The President commented on this report in his speech at the annual general meeting of the Institute. The second Tucker Committee on Taxation Treatment of Provisions for Retirement has not yet made a report, but the Council of the Institute has submitted a memorandum which appeared as an appendix to the annual report. In these days the question of provision for retirement is of vital importance to many persons who are unable to secure adequate retirement benefits and in this category those persons carrying on a profession either alone or in partnership are included. It is hoped that when the report is issued it will be found that due weight has been given to the submissions of the Council.

The Royal Commission

The Royal Commission on the Taxation of Profits and Income under the chairmanship of Lord Justice Cohen is now sitting. The Council of the Institute, with the valuable assistance of the Taxation and Research Committee, has already submitted a memorandum under the heads relating to 'General, social and economic' questions and a further memorandum on 'Particular matters relating to the taxation of profits and income' is now in course of preparation. These documents are at present confidential and must remain so until they have been made public by the Royal Commission through the hearing of oral evidence.

We, as an Institute, are proud of the fact that a member of the Council, Mr W. S. Carrington, has served on the first Tucker Committee and is a member of the second Tucker Committee and of the Royal Commission.

Finance Bill, 1951

Each year the terms of the Finance Bill come up for consideration by the Council and the Finance Bill of 1951 was no exception to the rule. The Council submitted a memorandum to the Chancellor of the Exchequer on certain aspects of the Bill and a deputation from the Institute met representatives of the Board of Inland Revenue when matters referred to in the memorandum were discussed.

While we all recognize the need for adequate powers to deal with evasion of taxation, the widely-drawn provisions of Section 32 of the Finance Act, 1951, relating to transactions designed to avoid liability to profits tax and of Section 36 of the same Act relating to restrictions in certain transactions leading to avoidance of income-tax and profits tax cannot be regarded with equanimity. Section 28 of the Bill, which became Section 32 of the Act, did undergo some change in the course of its passage through Parliament and an additional subsection was inserted which enabled a taxpayer to submit to the Commissioners of Inland Revenue particulars of a transaction which it was proposed to effect and, if the Commissioners were satisfied that the transaction was to be entered into for bona fide commercial reasons, no direction would be made. *The Times*, in a leading article referring to this section of the Bill, stated:

> This and some other parts of the Finance Bill will be critically examined by those who still believe that tax laws should not hamper or frustrate the ordinary actions of business life and should even conform to Adam Smith's first principle that the tax which each individual is bound to pay ought to be certain and not arbitrary.

Section 36 of the Act (or Section 32 as it was in the Bill) involves highly important economic considerations and it would appear that the matters dealt with in the section would be more appropriately dealt with by Exchange Control regulation than by tax legislation. To foster industrial development in this country is of the utmost importance but I cannot help but feel that the passing of Section 36 will diminish materially any hope of such development being financed in the future by capital provided by

(*Left to right*) Mr T. B. Robson, Vice-President of the Institute; Mr Charles W. Boyce, President of the Institute; and Mr S. W. Cornwell, President of the Bristol and West of England Society of Chartered Accountants, enjoy the autumn sunshine near the harbour at Torquay

At the first conference session at the Pavilion, Torquay (*left to right*), Sir Harold Barton, F.C.A., a Past President of the Institute; Mr S. W. Cornwell, President of the Bristol and West of England Society of Chartered Accountants and a member of the Council of the Institute; Mr G. R. Freeman, F.C.A., a Past President of the Institute; Mr Charles W. Boyce, C.B.E., F.C.A., President of the Institute; Mr T. E. Williams, Town Clerk of Torquay; Alderman E. G. Ely, J.P., Mayor of Torquay; Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., a Past President of the Institute; Mr T. B. Robson, M.B.E., M.A., Vice-President of the Institute; and Mr Gilbert D. Shepherd, M.B.E., F.C.A., a Past President of the Institute

anyone resident outside the United Kingdom. Do we not come back to the fact that it is the heavy taxation imposed in this country which is driving industrialists to thoughts of 'emigration' and to the establishment of new businesses with headquarters abroad rather than in Great Britain?

NATIONAL OUTLOOK

At the autumnal meeting held in London in October 1921, three years after the termination of the First World War, the President of the Institute, the late Mr William Cash, in his presidential address said:

> You will admit that as a nation we are living in a time of great difficulties, and if you examine these difficulties they nearly all resolve themselves into questions of finance. I need only enumerate international finance, capital and labour, the state of trade, taxation, national expenditure, the cost of living.

How true is that of the position in which we as a nation find ourselves today, but although perhaps suffering from a mild attack of inflation the nation in those days was not haunted by the fear of the uncontrolled variety of that malady. I wonder what Mr Cash would have had to say if he had had to contemplate a national debt of the astronomical amount at which it stands today.

Inflation

I suppose that in some small degree, inflation has been with us since the time of Henry VIII, but it has become really violent since the termination of the Second World War and having the example of Germany after the First World War in our minds, we can only view the present position of the country's finances with grave misgivings. The causes of the inflationary tendency are well known to all of you and need no elaboration from me, but it may be that we as accountants are concerned with some of the remedies applied to curb that tendency.

As an Institute we have always refrained from taking any action which might be construed as political in character and I am sure it is wise and proper that we should continue so to do. But that does not mean that we must refrain from criticizing actions taken by the Government, whatever government may be in power, if we feel that those actions do not conduce to the well-being of the nation as a whole and as individuals we are all entitled to express our views whether they be political or otherwise.

Constant Increases in Wages and Salaries

A reduction in our standards of living or a severe curtailment of our social services would be greatly deplored, but constant increases in wages and salaries do not ensure the maintenance of those standards for on every such increase the enhanced cost of some necessities of life cancels out the benefit of the higher wages. I was much impressed by a leading article in a recent edition of the *Yorkshire Post* which read:

> Will no one point out the simple truth that what is needed is a rise in *real* wages and that such a rise will be brought about only by increasing the rate of production? How is such an increase to be achieved? We must acknowledge that it will not be easy. It will demand new machinery in many factories, more alert and enterprising management in some, the abandonment of restrictive practices both by employees and trade unionists, a willingness to work awkward shifts in order to make full use of the available machinery and to spread out the calls upon motive power. It may involve longer hours and a return in some industries to Saturday working. But the reward for accepting such unpopular measures would be great. Goods would flow into the shops. The weekly wage packet would buy more. Present frustrations and anxieties would begin to disappear.

A similar thought must have been in the mind of Sir Russell Kettle when, referring to the nationalization of basic industries and utility undertakings at the autumnal meeting at Harrogate two years ago he said:

> Whatever may be our personal views on these and other social experiments and the way in which the burden of taxation is spread, I am sure that at the present critical juncture in the affairs of our nation we would all agree that the overriding need is for increased efficiency and economy, with the maximum effort on the part of every member of the community in order that the prosperity of our country, which in a national emergency should be above party politics, may be restored in due time.

Proposals Affecting the Accountancy Profession

It is seldom that we are officially informed in advance of legislation imposing restrictions of a financial character which the Government propose to introduce in the next parliamentary session, but the proposals which the Chancellor of the Exchequer announced in the House on July 26th last are an exception.

The two proposals which most particularly affect the accountancy profession are (i) a tighter check on credit, and (ii) a measure to control dividends.

The rising level of prices of all commodities with the resultant increase in the monetary value of stocks and of debts due from customers has made inroads into the cash resources of many undertakings. Profits may have been good and distributions of dividends may have been modest, but after satisfying the demands of the tax collector the amounts available for reserves are frequently insufficient to provide the finance to cover the higher values of stocks and other current assets, with the result that assistance from the banks has been necessary. Evidence of this state of affairs is forthcoming in the memorandum submitted by the British Bankers' Association to the Royal Commission on Taxation of Profits and Income. The effects of high taxation are now so severe that naturally no enterprising business can be expanded out of retained profits and, if banking facilities to an undertaking of undoubted stability are curtailed, the only effect can be a reduction in the volume of trade and a consequential loss to the country.

A welcome to Torquay. (*Left to right*): *Front row:* Messrs P. V. Roberts, A.C.A., a Vice-President of the Bristol and West of England Society of Chartered Accountants; H. A. Snell, F.C.A., Chairman of the Society's Conference Committee and a Vice-President of the Society; Charles W. Boyce, C.B.E., F.C.A., President of the Institute; B. Brookhouse Richards, A.C.A., Chairman of the Society's Printing, Publications and Press Sub-committee. *Back row:* Messrs C. Croxton-Smith, M.A., LL.B., F.C.A., Hon. Conference Secretary; E. A. Harris, F.C.A., Chairman of the Hotels and Reception Sub-committee; J. B. Watling, M.B.E., F.C.A.; A. C. Palmer, F.C.A.

(*Left to right*) Messrs T. Fleming Birch, F.C.A., a member of the Council of the Institute; K. G. Shuttleworth, F.C.A., a member of the Council of the Institute; Herbert J. Page, F.C.A.; and Henry R. Clark, A.C.A.

(*Left to right*) Mrs E. Sugden, Mr W. G. Densem, A.C.A., Mrs T. H. Burdon, Mr E. Sugden, F.C.A., and Mr T. H. Burdon, F.C.A., at the reception held before luncheon at the Palace Hotel, Torquay

The measure to control dividends must, I think, be read in conjunction with the Chancellor's remarks about wages increases. The Chancellor hoped that the psychological effect of a limitation of dividends and of other measures which he proposed to bring into operation would have a restraining influence on applications for wages increases. But from what we read in the newspapers almost every week it has not had that effect.

The proposals for limitation of dividends as set out in the White Paper operate most unfairly as between one company and another. If the proposals become law, the shareholders of those companies which refrained voluntarily from making even a modest increase in their rate of dividend in compliance with the Government's request will be penalized for what might be regarded as the patriotic action of their directors.

The effect of the limitation to a dividend of 5 per cent on the paid-up capital in the case of those companies, such as the rubber companies, which for a long period have been unable to carry on business except under grave disabilities and which are only now emerging into the dividend-paying category would be most unjust. It is hoped that special consideration will be given to such cases should such a Bill ever come before Parliament.

The proposal to limit dividends to 7 per cent in the case of new companies can in my view only have the effect of drying up the supply of risk capital and diverting the establishment of promising new enterprises to countries oversea.

I trust that the proposals for limitation of dividends may never reach the stage of being presented to Parliament in the form of a Bill.

In conclusion, the President expressed his regret at the absence of the Secretary, Mr Alan S. MacIver, who, accompanied by Mr G. O. May, was in the United States representing the Institute at the sixty-fourth annual meeting of the American Institute of Accountants at Atlantic City, New Jersey. Owing to the date of the autumnal meeting, Mr Boyce had been unable to accept the invitation to the American meeting.

Reception and Opening Luncheon

At the conclusion of the proceedings in the Pavilion, members joined the ladies for the opening lunch at the Palace Hotel where they were received by Mr and Mrs Cornwell and by Mr and Mrs Boyce. In the course of his speech of welcome, Mr Cornwell, who was in the chair during the lunch, said:

It is twenty-five years – a period which will be of happy significance to the married folk among us – almost to the day since, in October 1926, the Bristol and West of England Society last had the privilege of welcoming members and their ladies to an autumnal meeting in our area, and we note with great pleasure that among those who were present on that occasion, and who are with us today, are our honoured Past-President, Mr Gilbert Shepherd, and Mrs Shepherd – (applause) – and our old and ever-young friend Tom Walton of Manchester. (Applause.)

To the Winsomeness of the West

We welcome you all the more because we realize what a relief it must be to many of you to get away for a few days from the smoky North, or the murky Midlands, or the exposed East – did I hear someone say those fellows from the East ought to be exposed? – or from London – I can't find a polite adjective for that, but I have another one on the tip of my tongue! – we realize what a relief it must be to you to get away from all those places and come for a while to the winsomeness of the West and the sunshine of the South. (Laughter.)

And we offer a special welcome to the ladies. Of course, they will double their husbands' hotel bills – but they should reduce our overheads – (laughter) – and we realize that, generally speaking, ladies, whether at a conference or elsewhere, are generally speaking . . . (laughter) . . . please let me finish – the life and soul of any assemblage which they grace with their presence. And I would, on behalf of the ladies, venture to remind gentlemen members that, since the last Budget, their ladies have been worth to them ten nine-and-sixpences more than they were before. (Laughter.)

Mannequin Parade

Transport was available after lunch to take the ladies to a mannequin parade at the Marine Spa, presented by J. F. Rockhey Ltd, during which tea was served.

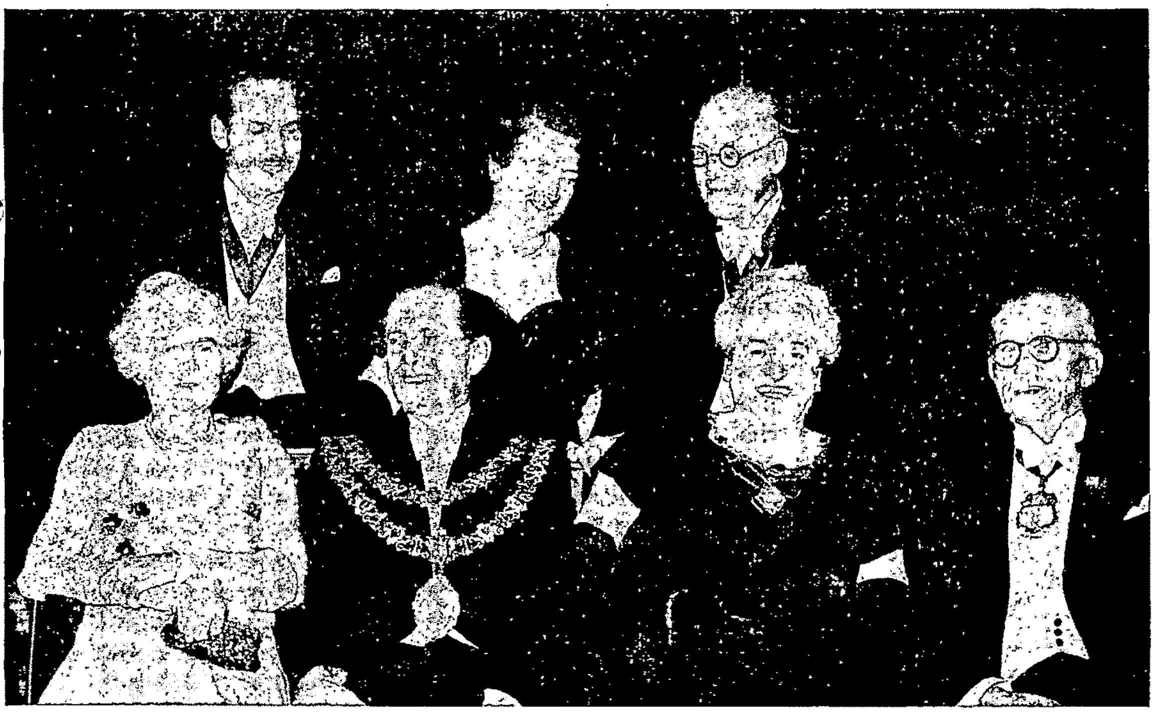
First Conference Session

Valuation of Holdings in Private Limited Companies

The first conference session was held from 2.45 p.m. to 4.45 p.m. in the Pavilion. Mr Boyce presided and introduced the first speaker, Mr W. G. Campbell, B.A., F.C.A., a member of the Council of the Institute, who gave a paper entitled 'The valuation of holdings in private limited companies for purposes other than probate', the first part of which is reproduced elsewhere in this issue. This paper was followed by another entitled 'The valuation of holdings in private limited companies for probate purposes', by Mr T. A. Hamilton Baynes, M.A., F.C.A., a member of the Council of the Institute; this paper also we hope to reproduce in an early issue.

The papers were followed by a discussion which was wound up by Mr Campbell and Mr Hamilton Baynes. A vote of thanks to these gentlemen and to the President of the Institute for taking the chair was proposed by Mr P. V. Roberts, A.C.A., Vice-President of the Bristol and West of England Society of Chartered Accountants. Mr Boyce responded.

At the ball. (*Left to right*) Sir Harold Barton, F.C.A., a Past President of the Institute; Lady Barton; Mrs W. S. Carrington, Mr W. S. Carrington, F.C.A.; Mr S. W. Cornwell, F.C.A., President of the Bristol and West of England Society of Chartered Accountants, at the civic reception



At the civic reception. (*Left to right*), *front row:* Mrs C. W. Boyce; Alderman E. G. Ely, J.P., Mayor of Torquay; Mrs Ely, Mayoress of Torquay; Mr Charles W. Boyce, C.B.E., F.C.A., President of the Institute. *Back row:* Councillor E. Narracott, the Deputy Mayor; Mrs S. W. Cornwell and Mr S. W. Cornwell, President of the Bristol and West of England Society of Chartered Accountants

Civic Reception and Ball

To conclude the first day of the meeting, members and guests were invited to a civic reception and ball at the Town Hall.

They were received by the Mayor of Torquay, Alderman E. G. Ely, J.P., the Mayoress, the President of the Institute, Mr C. W. Boyce, C.B.E., F.C.A., and Mrs Boyce, the Deputy Mayor, Councillor E. Narracott, the Town Clerk, Mr T. Elvid Williams, and the President of the Bristol and West of England Society of Chartered Accountants, Mr S. W. Cornwell, F.C.A., and Mrs Cornwell.

The Town Hall was floodlit for the occasion and the ballroom was decorated with skilfully illuminated banks of flowering plants. Officials of the Institute were entertained to supper in the mayor's parlour.

Members' ladies all wore sprays of deep cream roses, a gift from Mr Cornwell, which was unanimously voted a charming gesture.

Excursions

In lovely weather, nearly all those who did not take part in the golf competition went on one of the eight excursions, all of which were reported as being most enjoyable. Programmes of the excursions were: Devonport dockyard; round tour of Dartmoor and the coast; Widecombe-in-the-Moor, Buckfast Abbey and River Dart; Dartmoor and Dartington Hall; tour of Dartmoor, Princetown and Buckfast Abbey; Whiteway's Cyder Co Ltd, whole day tours, and two half-day tours, Buckfast Abbey and the River Dart.

Members of the Conference Committee or sub-committees and members of the Exeter and District Chartered Accountant Students' Society acted as stewards in each coach.

Golf Competition

There were 48 entries in the morning's Stableford Bogey over 18 holes at Torquay Golf Club. Competitors made the most of the fine weather and interest was keen. Mr P. V. Roberts, a Vice President of the Bristol and West of England Society of Chartered Accountants, won the Society's challenge cup with the highest number of Stableford points.

In the afternoon there was a two-ball foursome against bogey.

Mr Roberts presented prizes as follows:

Stableford Bogey

Mr W. E. Parker	Handicap 15	Points 31
Mr J. H. Plant	„ 6	„ 30

Two-ball Foursome Bogey

	Strokes received	*Bogey result*
Messrs G. W. Clough and W. Rayner	10	5 down
Messrs H. T. Nicholson and W. S. Hayes	11	5 down

Mr Roberts, who came third in the Stableford Bogey, received his trophy from Mr C. H. Young, who organized the day's competitions.

Those who spent the day at the club had lunch and tea in the club house.

RECEPTION AND BANQUET

At a banquet held at the Palace Hotel on Friday night, members and guests were received by Mr and Mrs Cornwell and Mr and Mrs Boyce, to whom bouquets were presented by Miss Anne Howitt. Miss Averil Peat presented bouquets to the Mayoress, Mrs E. G. Ely, to Mrs A. R. Boucher, J.P., and to Mrs C. H. Pritchard.

The Company

Among those present were: Alderman E. G. Ely, J.P. (*Mayor of Torquay*), and Mrs Ely (*Mayoress of Torquay*); Mr A. R. Boucher, O.B.E., T.D. (*President, The Bristol Incorporated Law Society*), and Mrs A. R. Boucher, J.P.; Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A. (*Past President of the Institute*), and Miss Anne Howitt; Mr C. H. Pritchard, B.SC., F.R.I.C.S., F.A.I. (*President, Chartered Auctioneers' and Estate Agents' Institute*), and Mrs Pritchard, and

Mr Graham Adam, M.C., F.C.A. (*Member of the Council of the Institute*), and Mrs Adam; Sir Harold Barton, F.C.A. (*Past President of the Institute*), and Lady Barton; Mr T. Fleming Birch, F.C.A. (*Member of the Council of the Institute*), and Mrs Fleming Birch; Mr James Blakey, F.C.A. (*Member of the Council of the Institute*), and Mrs Blakey.

Mr W. G. Campbell, B.A., F.C.A. (*Member of the Council of the Institute*), and Mrs Campbell; Mr P. F. Carpenter, F.C.A. (*Member of the Council of the Institute*); Mr W. S. Carrington, F.C.A. (*Member of the Council of the Institute*), and Mrs Carrington; Mr A. S. H. Dicker, M.B.E., F.C.A. (*Member of the Council of the Institute*), and Mrs Dicker; Mr Derek du Pré (*Editor, 'The Accountant', Hon. Public Relations Officer to the Twentieth Autumnal Meeting*); Mr G. R. Freeman, F.C.A. (*Past President of the Institute*), and Mrs Freeman; Mr C. R. Gray, F.I.M.T.A. (*Borough Treasurer, Torquay*), and Mrs Gray.

Mr E. W. Harris (*H.M. Principal Inspector of Taxes, Bristol*); Mr H. Crewdson Howard, F.C.A. (*Member of the Council of the Institute*), and Mrs Howard; Mr W. H. Lawson, C.B.E., B.A., F.C.A. (*Member of the Council of the Institute*); Mr C. H. S. Loveday, A.C.A. (*an Assistant Secretary of the Institute, Member of the Institute's Conference Committee*), and Mrs Loveday; Mr W. R. MacGregor, F.C.A. (*Member of the Council of the Institute*), and Mrs MacGregor; Mr S. J. Pears,

F.C.A. (*Member of the Council of the Institute*), and Mrs Pears; Mr C. U. Peat, M.C., M.A., F.C.A. (*Member of the Council of the Institute*), and Miss Peat.

Mr P. M. Rees, M.C., F.C.A. (*Member of the Council of the Institute*), and Mrs Rees; Mr P. V. Roberts, A.C.A. (*Vice-President, Bristol and West of England Society of Chartered Accountants*), and Mrs Roberts; Mr T. B. Robson, M.B.E., M.A., F.C.A. (*Vice-President of the Institute*), and Mrs Robson; Mr R. H. Rooke (*Secretary to the Mayor of Torquay*); Mr Gilbert D. Shepherd, M.B.E., F.C.A. (*Past President of the Institute*), and Mrs Shepherd; Mr H. A. Snell, F.C.A. (*Vice-President, Bristol and West of England Society of Chartered Accountants*), and Mrs Snell; Mr C. Merrett Stock (*Chairman, Bristol Stock Exchange*), and Mrs Stock.

Mr E. Duncan Taylor, F.C.A. (*Member of the Council of the Institute*), and Mrs Taylor; Mr E. Gordon Turner, M.C., F.C.A. (*Member of the Council of the Institute*), and Mrs Turner; Mr T. Walton, F.C.A. (*Member of the Council of the Institute*); the Rev. P. J. White, M.A., and Mrs White; Mr T. Elved Williams, LL.B. (*Town Clerk, Torquay*), and Mrs Williams.

A toast to 'The Borough of Torquay' was proposed by Sir Harold Howitt, who, expressing gratitude to the Mayor and Corporation of Torquay for all they had done, said:

A mayor of a town like Torquay must attend all kinds of conferences. He might give us a paper on 'Conferences I have known' which might even compare with Mr Turner's. (Laughter.) I can imagine that when he and the Mayoress go along to the first function, they exchange confidences in the car – something to the effect, 'I wonder what kind of a bunch of stiffs we are going to meet tonight?' (Laughter.)

He continued:

The Lion

One thing to remember is that at *this* conference we have achieved something of rather great effect – one of our members actually tried to steal a lion! (Loud laughter.)

I don't want to talk too much about the member, for I am very sorry about him, but I really think his name should be Albert. (Prolonged laughter.)

In his reply, Alderman E. G. Ely, Mayor of Torquay, said:

If I could have had the help of my learned friend on my left, I am sure your friends here this evening would say, 'Sir Harold, how witty you are!' (Cries of 'Oh' and laughter.)

A Very Old Craft

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr A. R. Boucher, President of the Bristol Incorporated Law Society, said in the course of his speech:

You and the senior members of your Institute must indeed be proud when you look back on what your Institute has done. Starting in the latter part of the last century you have managed to co-ordinate what has been a very scattered element in a very old craft.

Over the last seventy years, mainly through your efforts, those elements have been co-ordinated into a first-class profession. Someone, anyway, must have put in that work and I believe it to be your Institute.

Referring to the 'great progress' made by the profession, he said:

I do compliment you on the discipline you now exercise and on the standards of education you have now attained.

During my short life in practice I have never been treated unprofessionally by any member of your Institute – if I except a certain gentleman who kicked me in the teeth when I was playing for the students. (Laughter.)

Mr C. W. Boyce, C.B.E., F.C.A., President of the Institute, said in the course of his reply:

From our earliest days as articled clerks we have had drilled into us the code of ethics we must follow when we are admitted to membership of the Institute and as a result of the careful training given in most chartered accountants' offices, the number of cases of serious delinquency submitted to the Investigation Committee is comparatively small. (Applause.)

Professional Conduct and Etiquette

Under the Supplemental Royal Charter and new bye-laws, the Investigation Committee has had an additional burden placed upon it. It is now called upon, when requested, to advise members and articled clerks on matters of professional conduct and etiquette, and much of the agenda at its monthly meetings is taken up by inquiries of this nature. The members' handbook issued to all members last year gives a very clear guide to members as to the line of action which should be taken under a variety of difficult circumstances. It is not always an easy matter to decide in certain delicate situations what is the proper course to adopt and it must be a great comfort to members to know that if faced with a serious problem involving professional conduct they can obtain the advice of one of the standing committees of the Council.

A more frequent reference to the members' handbook on the part of those who find themselves in some little difficulty would, I am sure, reduce the time and trouble spent by the Investigation Committee in the consideration of inquiries which can only be regarded as trivial. I should make it clear that this is a personal opinion and I have not been bribed by the chairman of the Investigation Committee to put it forward. (Laughter.)

A Harassing Life

He continued:

The life of a chartered accountant is, to say the least of it, harassing. When trade is booming and profits are expanding, he is asked such questions as 'I say, old man, I wish you would have a look at this combined scheme for old-age pension, widows' pension, retirement benefit, deferred annuity and cost of funeral, and tell me what you think of it. They tell me I shall save no end of tax if I go in for it' – (laughter) – or, 'If I take my wife for a trip round the world and call on our only overseas customer in Jamaica, can you get the cost allowed as travelling expenses?' – (laughter) – or, 'Our golf club has arranged with some

well-known pros to give an exhibition match and have asked me for a subscription. Instead of doing that, can't my firm insert an advertisement in the club's brochure and charge it to advertising?' – (loud laughter).

Such situations require very tactful handling and often end by the accountant being asked, 'Are you acting for the Inland Revenue or for me?' (Laughter.)

But trade does not always boom, losses loom ahead, and a sinister disease called inflation becomes rampant. Our client then comes to us and says, 'I've got into a terrible mess. My customers are cancelling their contracts, I've an enormous quantity of high-priced stocks, my debtors are asking for extended terms and the bank are demanding a reduction of my overdraft. I wish you would get out some figures and tell the bank that the business is perfectly sound and, if possible, get them to grant a further £10,000 – and, by the way, I hate to mention it, but I shall really have to ask you to make a reduction in your audit fee.' (Loud laughter.) He may then even tell you of a remark made by one of his salesmen on his return from a visit to customers in the woollen district. 'Even them 'at has no intention of paying have given up buying.' (Laughter.)

At the moment I have not heard of advice being given to the business community to withhold their books from the auditors as by so doing they will be able to get their work done at a lower rate later on. (Laughter.)

Relations with Professional Brethren Overseas

The spread of nationalistic tendencies throughout the world is not without its repercussions on our profession. During the last few years Bills have been introduced in the legislatures of some of our Dominions and other countries which would place severe restrictions on the practice of accountancy in those countries by members of our Institute. Much of the time of the Council and Committees is spent on an examination of these measures and in the taking of all possible steps to safeguard the interests of our members, by making representations in appropriate quarters.

But these tendencies do not affect our relations with our professional brethren overseas which are of the most friendly character, and at recent Oxford courses we have had papers from members of the American Institute of Accountants and from the Vice-President of the Australian Institute of Chartered Accountants. These papers are of the utmost value and help us to a clearer understanding of the methods employed by the accountancy profession in other countries and of the difficulties with which accountants in those countries have to contend. (Hear, hear.)

Presentation to the Hon. Conference Secretary

At the conclusion of his speech, the President made a presentation to Mr C. Croxton-Smith, M.A., LL.B., F.C.A., Hon. Conference Secretary, in the course of which he said:

I hope, Mr Croxton-Smith, that the pair of Minty bookcases and the electric record player, which I now have the pleasure of handing to you, will from time to time recall to you our great appreciation of all you have done to ensure the success of this autumnal meeting. (Hear, hear.)

Mr Croxton-Smith, who was greeted with loud and prolonged applause, made an admirable reply.

A toast to 'The Guests' was proposed by Mr Cornwell, and acknowledged by Mr Pritchard.

Church Service

A church service was held at St Mary Magdalene Church at 9.45 on the Saturday morning and was attended by over 350 members and guests.

The service was conducted by the Curate, the Rev. P. J. White, M.A.

The lesson, Psalm cxxi, was read by Mr S. W. Cornwell, F.C.A., President of the Bristol and West of England Society of Chartered Accountants.

The Conference Sermon

After the hymn 'Praise, my soul, the King of Heaven', the conference sermon was delivered by the Lord Bishop of Exeter, the Rt. Rev. R. C. Mortimer, D.D., who took as his text, I Corinthians v. 2: 'Moreover, it is required in stewards, that a man be found faithful'; he said

And no wonder. For there was no effective check on them. A steward was what we should call an agent, bailiff or factor. He had extensive executive power to buy and sell; he had control of the stores; he collected rents. And there was no elaborate system of bills and invoices, of forms in duplicate and triplicate, of counter-signatures and all the rest of the checks and precautions which are a commonplace of modern business management. Or if there were such things, there was no one, I believe, whose duty it was to see that the rules were observed, or to detect frauds and embezzlements. In other words, there were no accountants.

Business of an Accountant

Accountants owe their existence, I suppose, to the fact that stewards were not found faithful. It is the business of an accountant to protect the steward from himself. The steward is undoubtedly exposed to many and various temptations to dishonesty. The certainty of detection by the cold and vigilant eye of the accountant robs those temptations of much of their attraction. It is much easier to keep your books properly if you know that any funny business is almost certain to be spotted.

It is the business of the accountant, as I understand it, to satisfy himself that the accounts which he audits contain no errors, no frauds and no illegalities – that the moneys stated to have been received have

(*Left to right*) Mrs A. F. B. Ham, Mrs H. A. Snell, Mrs P. W. Hort, Mrs C. W. Boyce, Mrs S. W. Cornwell and Mrs C. H. Young

A trip on the River Dart. (*Left to right*) Mr A. G. J. Horton-Stephens, A.C.A., Mrs Horton Stephens; Mr C. I. Bostock, F.C.A., Mrs C. I. Bostock; Mr E. Bostock, M.A., F.C.A., and Mrs E. Bostock

been received, no more and no less; that they have been expended precisely in the manner and for the purposes stated, and that those purposes are proper and properly authorized purposes. His signature is a solemn declaration or assurance that all is well. It is, or should be, a settlement of all doubts, misgivings and questions.

People Trust and Believe in Accountants

Assuredly, therefore, of accountants it is required that a man be found faithful. Yet *quis custodiet ipsos custodes?* Who shall certify the certificate, or account for the accountant? If you have a dishonest or venal accountant, what check is there on him? I take it there is none. The ethic of your profession is that none is needed. You are sworn and pledged to honesty, and you regard any questioning of that honesty, any suggestion of the need of further precautions and safeguards as a reflection on your professional honour: the guards need no guardian. There is no safeguard, no guarantee beyond your own sense of duty and responsibility. The system only works because of that, and because people trust and believe you. If that confidence were ever severely shaken, the whole system would collapse.

A Great Public Service

This professional honour is a very fine and noble thing. It is also a great service to the community. No community can prosper if everywhere there is dishonesty and suspicion. That community alone is healthy, happy and prosperous in which the members have a general confidence and trust in each other. Since the existence of your profession, except in so far as you act simply as expert guides and advisers, arises out of an inability or unwillingness to trust 'the stewards' by themselves, it is an unhappy necessity. It is a second best. Yet it would be a disaster if a situation arose in which the accountants could not be trusted either and in which yet further complicated counter-checks were demanded. That you maintain a state of affairs in which your honesty is never questioned is a great public service; for it imparts to the community a degree of trust and confidence essential to its welfare.

Vulnerability of Professional Honour

Yet how frail and vulnerable is this professional honour! It is under the constant pressure of personal temptation. No doubt there are ways in which the law can be circumvented, there are means of suppressing and cloaking and concealing frauds: and no doubt the more expert the accountant, the more skilled he is in averting any unpleasant consequence to himself. And how much damage to public confidence can be done by even one dishonest accountant, the moment he is discovered?

The maintenance of this professional honour unimpaired depends ultimately on the personal sense of duty and responsibility of every one of you. It depends on personal honour; on a resolution to do the right no matter what temptation to do otherwise may arise. If it were the fact that you refrain from doing what is wrong merely out of fear of the consequences of what would happen to you if you were found out, your professional standards would not last a generation. You are clever enough to find ways of avoiding those consequences. The real cause of your high standing – and the only means of maintaining it – is your own sense of right and wrong and your own determination to do your duty. *Fiat justitia ruat caelum.* 'I certify only what I know to be right and above board and nothing will induce me to do otherwise.'

Personal Sense of Duty

Your professional honour rests therefore ultimately on a personal sense of duty. It derives from a conviction deeply held that honesty, justice, truthfulness and so on are inherently worth while, and that lies, greed, selfishness are not, whatever superficial advantage they may appear to offer. But life cannot be separated into watertight compartments. A low standard of ethics in one area of life inevitably affects other areas in time. Habits of greed, laziness or self-indulgence once formed are not easily broken; they tend gradually to dominate the whole character. A professional man whose private life is known to be vicious inevitably comes under suspicion – even in his public life. One cannot be sure that a man who is weak or corrupt in one respect is not or may not be weak and corrupt in all.

Danger of Lowering Personal Standards

Professional honour depends on personal honour: personal honour depends on unceasing vigilance and continued aspiration towards the highest ideal we know. Once acquiesce anywhere in the second-rate, once allow ourselves to continue in a course of conduct we know to be wrong, and we start out upon a slippery slope to final complete loss of self-respect; and none of us at any time is free from this danger. I do not suggest that any of you are in immediate or present danger of unprofessional conduct; I do suggest that you are all – that *all* men – are in constant danger of so lowering their personal standards under the constant pressure of the world, the flesh and the devil, that they may come to a point in which no meanness of conduct is unthinkable.

In Life, No One can Stand Still

It is, I suppose, a recognition of your vulnerability – an understanding that all men stand in constant need of strength to resist their temptations and that all need to have their eyes opened to faults and flaws in which they have long acquiesced, it is a knowledge that in life no one can stand still – he must become a better man or a worse one – it is a perception that in your profession as in any other the maintenance of a high standard of professional conduct depends on the members of the profession being good men, not

Mr H. Senior, M.SC.(ECON.), B.COM., A.C.A., putting at the 17th hole during the golf competition. His opponent is Mr S. J. Pears, F.C.A., a member of the Council of the Institute

Mr G. F. Saunders, F.C.A., a member of the Council of the Institute (*left*) and Mr R. McNeil, F.C.A., with their caddy cars during the golf competition

Mr A. C. Falkner, B.SC., A.C.A., driving during the golf competition. Also (*left to right*) Mr W. S. Hayes, A.C.A., Mr H. T. Nicholson, F.C.A., and Mr W. E. Parker, C.B.E., F.C.A.

bad men; it is these considerations that have led you to come at your conferences to a church service. You know that you need God and that in the worship of God alone rests your hope of becoming better men than you are.

Custodians of Commercial Morality

Professionally you are answerable to nobody; you are yourselves the custodians of commercial morality. You are, in that, answerable to your consciences alone. And of your conscience God is the sole and final and exacting judge. It is right that you should often reflect on this, and that you should pray for God's grace and protection, that He may make and keep you fit persons to discharge your serious and difficult responsibility.

During the singing of the hymn 'Life and Light and Joy are Found in the Presence of the Lord', a collection was taken for the Chartered Accountants' Benevolent Association; this amounted to £77 8*s* 3*d*.

At the conclusion of the church service, the ladies visited Torre Abbey, seeing the Mansion House and ruins, and partaking of morning coffee.

Second Conference Session

Effect of Taxation upon Industry and the Individual

At the second conference session, also held in the Pavilion and presided over by the President of the Institute, Mr E. G. Turner, M.C., F.C.A., a member of the Council of the Institute, read a paper entitled 'The effect of taxation upon industry and the individual', which we hope to reproduce in an early issue. The paper was followed by a discussion which was wound up by Mr Turner. A vote of thanks to Mr Turner and to the President of the Institute for presiding was proposed by Mr Edward A. Harris, F.C.A., and acknowledged by Mr Boyce.

Concluding Luncheon

At the concluding luncheon, with Mr Cornwell in the chair, Mr George R. Freeman, F.C.A., Past President of the Institute, gave warm expressions of appreciation of the vast amount of work done by all those who had played a part in the organization of the meeting. Mr H. A. Snell, F.C.A., Chairman of the Conference Committee of The Bristol and West of England Society of Chartered Accountants, replied in felicitous terms, and the proceedings were brought to a conclusion by Mr Cornwell in a charming speech of farewell.

Members of Committees

Membership of the committees responsible for the autumnal meeting was as follows:

The Institute's Conference Committee

The President of the Institute: Mr Charles W. Boyce, C.B.E., F.C.A.; Mr H. Garton Ash, O.B.E., M.C., F.C.A.; Sir Russell Kettle, F.C.A.; *Secretary:* Mr A. S. MacIver, M.C., B.A.; *Assistant Secretaries:* Mr C. H. S. Loveday, A.C.A., Mr F. M. Wilkinson, A.C.A.

The Society's Conference Committee

The President of the Society: Mr S. W. Cornwell, F.C.A.; *the Vice-Presidents of the Society:* Mr P. V. Roberts, A.C.A., Mr H. A. Snell, F.C.A.; *Chairman:* Mr H. A. Snell, F.C.A.; *Honorary Conference Treasurer:* Mr A. F. B. Ham, F.C.A.; *Honorary Conference Secretary:* Mr C. Croxton-Smith, M.A., LL.B., F.C.A.; Messrs C. G. W. Blathwayt, M.C., M.A., A.C.A., H. R. Clark, A.C.A., R. S. Frost, F.C.A., E. A. Harris, F.C.A., W. N. Hoyte, A.C.A., B. Brookhouse Richards, A.C.A., P. R. W. Whyman, A.C.A., C. H. Young, F.C.A.

The Society's Conference Sub-Committees

HOTELS AND RECEPTION

Chairman: Mr E. A. Harris, F.C.A.; *Vice-Chairman:* Mr C. H. Maggs, F.C.A.; *Hon. Secretary:* Mr B. Darbyshire, A.C.A.; Messrs F. L. K. Crowe, F.C.A., J. S. Phillips, F.C.A., R. H. Passmore, A.C.A.

BANQUET AND CATERING

Chairman: Mr P. R. W. Whyman, A.C.A.; *Vice-Chairman:* Mr P. W. Hort, F.C.A.; Messrs S. T. Carwardine, A.C.A., W. J. Corpe, A.C.A., W. N. Hoyte, A.C.A., S. C. Smith-Cox, T.D., F.C.A.

EXCURSIONS

Chairman: Mr C. G. W. Blathwayt, M.C., M.A., A.C.A.; Messrs R. A. Chermside, A.C.A., M. Perkins, A.C.A., J. S. Phillips, F.C.A., F. J. Thompson, F.C.A.

GOLF

Chairman: Mr C. H. Young, F.C.A.; Mr N. G. Webber, A.C.A.

PRINTING, PUBLICATIONS AND PRESS

Chairman: Mr B. Brookhouse Richards, A.C.A.; Messrs W. E. Dewdney, A.C.A., W. A. Hawkins, J.P., A.C.A., J. G. Simpkins, A.C.A.

The Committee of the Society

President: Mr S. W. Cornwell, F.C.A.; *Vice-Presidents:* Messrs P. V. Roberts, A.C.A., and H. A. Snell, F.C.A.; *Hon. Secretary:* Mr C. Croxton-Smith, M.A., LL.B., F.C.A.; *Hon. Treasurer:* Mr A. F. B. Ham, F.C.A.; *Hon. Librarian:* Mr E. A. Harris, F.C.A.; Messrs H. R. Clark, A.C.A., R. S. Frost, F.C.A., Stephenson Grace, F.C.A., P. W. Hort, F.C.A., C. H. Maggs, F.C.A., R. L. Owen, F.C.A., J. G. Simpkins, A.C.A., C. H. Young, F.C.A.

Honorary Public Relations Officer

Mr Derek du Pré, Editor of *The Accountant.*

Reprints of these photographs and of others taken during the meeting can be obtained from the 'Bristol Evening Post', Photo Sales Department, Silver Street, Bristol, 1.

WEEKLY NOTES

Accountants and the General Election

In the last General Election held in February, 1950, six members of the profession were returned to Parliament. They were Mr John Diamond, F.C.A., Labour Member of Parliament for the Blackley Division of Manchester; Commander T. D. Galbraith, C.A., Conservative Member for Pollok, Glasgow; Sir J. Stanley Holmes, F.C.A., National Liberal Member for Harwich; Mr Roland Jennings, F.C.A., Conservative and Liberal Member for the Hallam Division of Sheffield; Mr A. E. Marples, A.S.A.A., Conservative Member for Wallasey; and Mr G. P. Stevens, F.C.A., Conservative Member for the Langstone Division of Portsmouth.

All these Members are standing again for the same constituencies in the forthcoming election, and in addition a number of other members of the principal accountancy bodies are entering the electoral lists. The following is a list of these candidates, with the constituencies which they are contesting: Messrs F. J. Allaun, B.COM., A.C.A. (*Lab.*), Moss Side, Manchester; H. W. Bolt, F.C.A. (*Lab.*), Huddersfield West; K. A. P. Dalby, D.S.O., F.C.A. (*Cons.*), Bristol Central; S. H. P. Garlick, A.C.A. (*Cons.*), Gorton, Manchester; E. Harrison, A.A.C.C.A. (*Lib.*), Middleton and Prestwich; Edwin Hodson, A.A.C.C.A., A.T.I.I. (*Cons.*), Ardwick, Manchester; J. M. Howard, F.C.A. (*Cons.*), North Hammersmith; G. D. Johnstone, A.C.A. (*Cons.*), West Bromwich; W. J. M. Kean, C.A. (*Unionist*), Edinburgh Central; Bruce Millan, C.A. (*Lab.*), West Renfrewshire; J. F. Nash, A.C.A. (*Cons. and Nat. Lib.*), Chesterfield; N. T. O'Reilly, F.C.A. (*Cons.*), Carlisle; Lawrence W. Robson, F.C.A., F.C.W.A., A.M.I.P.E. (*Lib.*), Banbury; A. Russell, A.A.C.C.A. (*Cons.*), West Gloucestershire; Major W. O. Smedley, M.C., F.C.A. (*Lib.*), Saffron Walden; Mr Frank Smith, F.C.A. (*Lib.*), Blackley, Manchester.

It is interesting to note the prominence of the profession in the Manchester area where two accountants are rival contestants for the Blackley Division; the neighbouring constituencies of Ardwick, Gorton and Moss Side are also being contested by candidates who are members of the profession.

No Dividend Limitation in Northern Ireland

Whatever the eventual fate of the proposed statutory limitation of dividends in Great Britain, in Northern Ireland it is not even to be proposed. This was made clear by the Minister of Finance (Major the Rt. Hon. J. Maynard Sinclair) at a dinner held recently by the Belfast and District branch of the Institute of Cost and Works Accountants. Major Sinclair said that the matter was not one of those reserved to the Imperial Parliament and he himself had no intention of introducing such a Bill. The dividends of the comparatively few companies in Northern Ireland could have little effect on general inflationary tendencies. Moreover, unemployment there was relatively greater than elsewhere in the Kingdom, so that anything which might tend to discourage the investment of new money should be avoided. The Minister added that he made the statement in order that industry and the public should know where they stood without further delay.

Salford Hundred Court

The committee which the Chancellor of the Duchy of Lancaster appointed a year ago to examine the Court of Record for the Hundred of Salford, and which included in its membership Mr C. W. Boyce, C.B.E., F.C.A., President of the Institute, has now had its report published as a White Paper.[1]

The committee was asked to inquire into the practice and procedure of the Court, to report how far it is now of benefit to the parties for whom it is intended, what changes in practice or procedure might be desirable and whether there should be an increase in the Court's monetary jurisdiction.

The committee's report is wholly favourable to the continuance of the Court and to an increase in its monetary jurisdiction but recommends slight changes in practice and procedure.

Lithographic Printing Productivity Report

A recurring theme throughout the report of the lithographic printing industry team[2] which visited the United States earlier this year under the auspices of the Anglo-American Council on Productivity, issued on Monday last, is the feeling of confidence and mutual trust which exists in America between employer and employee. The enthusiasm and vitality shown by management is reciprocated by the workers with the result that the standards set for productivity are extremely high.

The team recommends that, following the American example, senior executives in this country should delegate routine duties to subordinates to allow themselves sufficient time and energy to concentrate on output problems which involve, among other things, a study of organization, layout, co-ordination and future development. Benefits which accrue from increased productivity should be shared between employers and employees, bearing in mind the need to decrease the cost of the finished product to the consumer. Consideration should also be given to the introduction of profit-sharing and incentive schemes to give encouragement and appropriate rewards to all levels of management.

Mr Philip C. Lloyd, F.C.A., partner in the firm of J. B. Hughes & Lloyd, Liverpool, was a member of

[1] H.M.S.O. Cmd. 8364 9*d*. net.

[2] Copies of the report may be obtained from the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1, or from the British Federation of Master Printers, 11 Bedford Row, London, WC1, price 5*s* post free.

the team which was led by Mr Charles Birchall, chairman and managing director of Charles Birchall & Sons Ltd, Liverpool.

External Trade in September

Preliminary trade figures for September were issued at the end of last week. They give a slightly less alarming picture than for the previous month, but they have their own contribution to make to the present tale of difficult overseas trading conditions.

Exports fell off over the month by about £22 million to £218 million. Imports declined by £31 million to £337 million. Measured in the usual conventional and very approximate way, the visible trade balance was thus slightly less to this country's disadvantage than in August. It would appear that some benefit was being reaped from the easing off in seasonal imports.

On the other hand for the first time for a long period there was a definite set-back in this country's exports to North America. Sales to the United States and Canada were off by as much as 33 per cent.

Electricity and Investment

The annual report of the British Electricity Authority for the year ended March 31st, 1951, was issued last week. Particular attention has been drawn to it this year because of its outspoken comment on the B.E.A.'s difficulty in making long-term plans when the Ministry of Fuel and Power will not issue its directive for the years following 1955.

The Authority is somewhat chagrined that the target for installed new capacity has been reduced from 1,800,000 kilowatts a year to 1,500,000 kilowatts a year. It is also concerned – and this was re-echoed in Lord Citrine's remarks at a press conference last week on the occasion of the publication of the report – that even this reduced figure cannot be reached and sustained if there is not a high priority given to materials for electric generating installations.

The B.E.A. accepts with a good grace the cut in the programme, realizing that its allocation of scarce steel and manufacturing capacity must be part of an overall scheme. Its main complaint is the Ministry's unwillingness or inability to see beyond 1955. This point is in fact the basic issue to which attention should be given in discussing the issues of principle when there is public criticism of a Ministry by a nationalized industry for which it is in a limited sense responsible.

In an industry like electric power, long-term planning – in the correct and non-political sense – is essential. It must have a long-period investment schedule worked out, within which there must be an element of flexibility to take account of short-term changes of plan and also of those matters which seriously affect the long-term programme. For the electricity industry the long-term is something like ten years and the short-term is about two years. Its equipment takes so long to build that changes of plan cannot be put into operation in a smaller length of time.

There is therefore something seriously wrong when the electricity industry cannot make, or will not make, plans because the Ministry concerned will not give a lead beyond the next four years. It suggests that the industry is subject to wrong ideas about planning, that it is going to be kept waiting for a lead and then given a directive at short notice. It is that sort of planning, if such it may be called, which leads to hurried, inflexible decisions on major issues of the greatest long-term significance. It leaves no margin for adjusting schemes to current circumstances without a major disruption and it stultifies the capacity to take intuitive decisions in the light of current circumstances which is the life-blood of enterprise and efficiency.

Plans for Winter Rail Traffic

Impending difficulties on rail this winter due to sustained high traffic volume but decreasing staff have been common knowledge for some time. The Transport Commission itself has warned of dangers to come depending for their severity on the kind of winter which is experienced. Last week the Commission announced a winter scheme to meet the possible emergency.

Basically the problem is, according to the Commission, that the railways will have to carry about five million tons more traffic than last winter with 5 per cent fewer staff to handle it. Two-thirds of the increase will be coal. The shortage in staff is especially severe in London, South Wales, the Midlands, Lancashire and the West Riding of Yorkshire – in the large English industrial areas. A number of steps are being taken by the railways to ease the expected congestion, only a few of which can be summarized here. Some 600 train crews a day are to be switched to freight work from the passenger services; traffic is to be diverted from congested areas; there is to be intensive week-end freight working; 50 heavy freight engines are to be moved into the affected areas; assisted lodging schemes for staff prepared to work in the London and Birmingham areas and additional hostel accommodation are to be introduced; a campaign to avoid detention at terminals is to be instituted; the Road Haulage Executive is to have stand-by arrangements to assist the flow of goods on rail.

In addition to the steps which the railways are taking themselves, however, a big effort is to be made to obtain the co-operation of the user industries and to create an administrative machine which can give advice to industrialists with a special transport problem. In every fifty-one of the railway districts a committee is to be set up consisting of the railway district commercial superintendent, the district manager of the road services, and representatives as required of the F.B.I., the Chambers of Commerce, and the National Farmers' Union. Representatives of these organizations will also meet at the national level. The district committees will examine such problems as re-routing, congestion and quicker turn-round of traffic.

FINANCE AND COMMERCE

The Stock Exchange never has followed the 'happy medium'. It deals in extremes. The market has shown an optimism amounting almost to bravado over the general election. Even if the optimism is fulfilled the event may have been so heavily discounted that there may well be a setback in values.

Realistic Approach

The accounts of Kelsall & Kemp Ltd, which we reprint this week, leave one with a feeling that more might have been said by Mr J. Noel Walsh, the chairman, on the subject of stock valuation. 'A realistic approach', he says in his statement, 'has been made to all stock valuations whether in hand, on the sea, or in Australia. As will be seen from the profit and loss account, a change has been made in the method of valuing work in progress.'

The reference to the profit and loss account is presumably to the debit item of £31,535. In the balance sheet consolidated stock-in-trade and work in progress is shown at £1,488,013 as compared with £1,004,076 a year previously, but in the actual accounts of 1950 the figure was £852,541.

The loss of £74,007 for the year to June 30th, 1951, Mr Walsh says, is a direct consequence of 'the unprecedented fluctuation in wool prices. For the first time since the end of the war, it was necessary to value all stocks for balance sheet purposes at market instead of cost price.'

Over-Depreciation

The notes on the consolidated balance sheet of May & Hassell Ltd contain a statement that the directors decided to write down the book value of certain fixed plant to a nominal value at balance sheet date (March 31st, 1951) 'as a matter of financial prudence'. Such writing down, the statement continues, can, under the Companies Act, 1948, be regarded as excessive. It is estimated that as a result, a reserve for future depreciation has been created of approximately £10,500. The auditors have not felt it necessary to mention the matter in their report.

The company, with its headquarters at Bristol, is in business as importers of soft and hard woods, saw millers, kiln driers, etc. This description of the business is very usefully given at the beginning of the report and accounts.

The accounts also show, however, that the company also has a farming sideline. Under farm property, land and buildings stand at £40,287 and motor vehicles, carts and implements, etc., at £19,899 and the stock on the farms as valued by licensed valuers and the company's officials is given at £64,855.

A Reader's Point

As we set down the description of the May & Hassell business, we remembered that some time ago a reader raised this particular point. Would we please state the nature of the business, he asked, when referring to public companies in this column. It is curious that there are still very many companies – quite a substantial percentage – that give no indication at all in the annual publication of the nature of their activities.

In some cases the title of the company is itself descriptive. In others the chairman's review covers the necessary ground. For the rest, one can refer to the Stock Exchange Official Intelligence, which includes short details of the business in the general particulars of each company.

It requires no great effort or expense, however, to give this description in the annual report. It can be said that shareholders may be presumed to know the nature of the company in which they have put their capital but, in these days, company reports through the Stock Exchange and the Press – including this column – reach a much wider public than the few hundred or thousand members of the company itself.

Definition for Depreciation

Mr R. F. Butler, chairman and managing director of Kirkstall Forge Engineering Ltd, referring to the question of depreciation allowance, maintains that the company is 'fined' £25,000 a year for 'trying to ensure that our men shall not be unemployed'. It looks rather far-fetched but on analysis the statement can be justified – at least in the way the chairman puts the argument.

In the past when prices remained fairly stable over a number of years, he says, it was reasonable to fix the yearly depreciation allowance for taxation purposes as a percentage on the original cost of the plant. Today conditions are quite different as prices have at least doubled in ten years. The increased weight of taxation, he adds, makes the matter far more important.

In the company's own case, the result, Mr Butler says, is that over £20,000 has to be provided this year in addition to the amount allowed free of tax, merely to be able to keep the plant in the same state of efficiency as it was before the war.

But in fact, he continues, we have to earn £45,000 to provide this £20,000 as this money is looked upon as profit and we have to pay tax on it. Unless the plant is maintained in good order, costs will rise and we shall not be able to compete, he says, in the world's markets. And if we fail in this we shall lose our customers and our men will be out of work. Q.E.D.

Money Market

With applications some £38 million higher at £327,410,000 the market's allotment of Treasury bills on October 5th was 58 per cent of requirements. The average rate was 10*s* 2·64*d* per cent. This week's offer is £250 million.

KELSALL & KEMP LIMITED
AND ITS FIVE SUBSIDIARY COMPANIES
Balance Sheet and Consolidated Balance Sheet as on June 30th, 1951

June 30th, 1950 (adjusted) Parent Company only		The Group Consolidation			Parent Company only		The Group Consolidation	
£	£	£	£	**Fixed Assets**	£	£	£	£
				At the net book amount on June 30th, 1948, less sales and less depreciation as shown:				
148,155		184,857		Freehold and leasehold land, water rights and buildings ..	148,155		184,857	
6,741		10,086		Depreciation	9,518		18,205	
	141,414		174,771			138,637		166,652
181,940		203,301		Plant and equipment	180,406		201,767	
22,413		29,025		Depreciation	32,163		41,130	
	159,527		174,276			148,243		160,637
	40,000		56,437	Goodwill and trade-marks		40,000		56,437
				Additions since June 30th, 1948, at cost, less depreciation as shown:				
15,312		15,561		Freehold and leasehold land and buildings..	17,389		18,313	
2,200		2,200		Depreciation	2,785		3,463	
	13,112		13,361			14,604		14,850
81,587		98,474		Plant and equipment	123,518		151,867	
12,141		18,109		Depreciation	23,338		30,999	
	69,446		80,365			100,180		120,868
	423,499		499,210			441,664		519,444
	74,184		—	Shares in subsidiary companies		74,184		—
	497,683		499,210	**Total Fixed Assets**		515,848		519,444
	14,561		14,561	**Loans to employees for house purchase etc.**		9,204		9,204
				Current Assets				
877,449		1,004,076		Stock-in-trade and work in progress	1,343,760		1,488,013	
117,391		212,128		Sundry debtors and payments in advance	202,108		371,364	
60,000		75,000		Tax reserve certificates	—		5,000	
254,441		297,166		Bank deposits and balances, and cash	207,766		210,537	
1,309,281		1,588,370			1,753,634		2,074,914	
53,709		—		Indebtedness of subsidiary companies	46,050		—	
1,362,990		1,588,370		**Total Current Assets**..	1,799,684		2,074,914	
				Current Liabilities and Provisions				
94,759		115,159		Sundry creditors and accrued charges	59,179		83,406	
—		—		Bank overdraft	778,745		801,818	
2,000		2,000		Miscellaneous provisions	—		—	
237,000		238,939		Taxation in the United Kingdom (legal liability)	214,000		241,050	
38,637		38,637		Proposed dividends (net)...	25,069		25,069	
372,396		394,735			1,076,993		1,151,343	
4,325		—		Indebtedness to subsidiary companies	5,007		—	
376,721		384,735		**Total Current Liabilities etc.**	1,082,000		1,151,343	
	986,269		1,193,635	**Total Net Current Assets**		717,684		923,571
	1,498,513		1,707,406	**Total Net Assets**		1,242,736		1,452,219

Issued and fully paid		Issued and fully paid			Authorized	Issued and fully paid		Issued and fully paid	
				Capital					
400,000		400,000		7 per cent Cumulative Preference Shares of £1 each	£400,000	400,000		400,000	
450,000		450,000		Ordinary Shares of £1 each	600,000	450,000		450,000	
	850,000		850,000		£1,000,000		850,000		850,000
				Capital Reserves					
83,599		83,599		Excess profits tax post-war refund		83,599		83,599	
—		225		Sundries		—		225	
	83,599		83,824				83,599		83,824
				Revenue Reserves					
260,000		283,971		General and replacement reserves		200,000		224,441	
82,379		91,070		Profits carried forward		45,137		56,546	
adjt. 31,535		31,535							
373,914		406,576				245,137		280,987	
30,000		32,192		Staff superannuation		30,000		32,192	
30,000		30,000		Employees' amenities		30,000		30,000	
131,000		195,084		Taxation in the United Kingdom (future liability)		4,000		62,137	
	564,914		663,852				309,137		405,316
	1,498,513		1,597,676	**Parent Company Shareholders' Interests** ..			1,242,736		1,339,140
				Outside Shareholders' Interests in a Subsidiary Company					
	—		109,730	Preference and Ordinary Share Capital and Reserves			—		113,079
	£1,498,513		£1,707,406	**Total of Shareholders' Interests**			£1,242,736		£1,452,219

J. N. WALSH }
I. C. HILL } *Directors*

KELSALL & KEMP LIMITED
AND ITS FIVE SUBSIDIARY COMPANIES

Consolidated Profit and Loss Statement for the year ended June 30th, 1951, and Parent Company's Statement of Appropriations

Last Year £	Last Year £		Paid £	Proposed £	This Year £	This Year £
	—	Loss on trading before charging the expenditure shown below				14,596
		Depreciation, provided by:				
24,476		The parent company			24,308	
9,984		The subsidiaries			10,101	
	34,460					34,409
		Directors' emoluments:				
2,200		Fees as directors			2,200	
22,870		Managerial services			10,834	
6,115		Superannuation contributions			6,111	
31,185					19,145	
102		*Less* paid by Trustees of the Pensions Fund			106	
	31,083					19,039
	736	Auditors' fees and expenses				750
	23,223	Deferred repairs				13,248
	113,070	*Income Tax based upon the profits of the year*				—
	51,883	Profits Tax for the year				22,140
	157,798	*Net profit of the group for the year*				—
	412,253					104,182
	—	Net loss of the group for the year brought down			65,611	
	11,017	Outside shareholders' interest in the profits of a subsidiary			8,396	
	—	Amount of group loss attributable to parent company				74,007
	—	Taxation adjustments in respect of previous years				4,595
	146,781	*Balance carried down*				—
	157,798					78,602
	—	Balance brought down				47,067
	4,765	Parent company's interest in the profits retained by subsidiaries				5,031
	142,016	*Balance carried down, being profit taken to account by the parent company*				—
	146,781					52,098
	—	Balance brought down				52,098
		Transfers to reserves:				
	60,000	*General*				—
	10,000	*Staff superannuation*				—
	10,000	*Employees' amenities*				—
		Dividends:	*Paid* £	*Proposed* £		
28,000		7 per cent Cumulative Preference Shares	14,000	14,000		
		Ordinary Shares:				
22,500		Interim at 5 per cent actual	22,500	—		
33,750		Final at 7½ per cent actual	—	33,750		
22,500		*Bonus at 5 per cent actual*	—	—		
106,750			36,500	47,750		
48,038		*Less* Income Tax	16,425	22,681		
			£20,075	£25,069		
	58,712					45,144
	82,379	Parent company's balance carried forward				45,137
	£221,091					£142,379

Last Year £		This Year £
410,964	*Profit on trading before charging the expenditure shown opposite*	—
829	Income (gross) from quoted investments	441
460	Surpluses on the sale of fixed assets	88
—	Income Tax relief based upon the loss of the year	38,042
—	Net loss of the group for the year	65,611
412,253		104,182
157,798	*Net profit of the group for the year brought down*	—
—	Adjustment (after taxation) due to a change in the basis of accounting as at June 30th, 1950, whereby the work in progress, previously valued at base stock prices, was revalued at cost	31,535
—	Balance carried down	47,067
157,798		78,602
146,781	*Balance brought down*	—
—	Balance carried down, being loss taken to account by the parent company	52,098
146,781		52,098
142,016	*Balance brought down*	—
79,075	Parent company's balance brought forward from previous year	82,379
—	Transfer from General Reserve	60,000
£221,091		£142,379

CURRENT LAW

Liability of Husband to Wife in Tort

A man and his wife were injured in a car accident and the husband was found partly to blame. In an action by him and his wife against the driver of the car which collided with that driven by the husband and which caused the injury to the wife, it was held that the husband was not liable to contribute.

Devlin, J., held that the rule which provided that husbands and wives could not sue each other in tort meant that the wife could recover the whole of her damage notwithstanding that her husband was partly responsible. The husband was not a tortfeasor under Section 6 (1) (*c*) of the Law Reform (Married Women and Tortfeasors) Act, 1935. (*Drinkwater and Another v. Kimber* (*Law Journal*, September 14th, 1951).)

Ownership of Gold Brought from Occupied Territory

In *Bank voor Handel en Scheepvaart N.V. v. Slatford* (*Solicitors' Journal*, August 25th, 1951), Devlin, J., found for the defendant, the Custodian of Enemy Property, in an action brought by the bank for conversion. Before the war the Dutch bank deposited the gold in a safe deposit in London. When the Germans occupied the Netherlands the bank continued their domicile in Holland. The Royal Netherlands Government in London decreed that property belonging to persons resident in Holland should become the property of the state. In 1940 the Board of Trade made a vesting order transferring the gold to the defendant, by whom it was sold.

Devlin, J., said that the only question was whether the decree of the Netherlands Government was effective to transfer the gold, a question which he decided in the negative.

Foreign State: Jurisdiction

The Federation of Pakistan, as the Government of Pakistan, entered into a contract with one Kahan for the supply of tanks. The contract provided that English law was to govern it and that the Government agreed to submit to the jurisdiction of the English courts. The plaintiff sued for breach.

The Court of Appeal upheld the decision of Slade, J., to the effect that the defendants could not be sued unless they submitted to the jurisdiction. The plaintiff argued that the foreign sovereign had chosen to come to this country and enter into an ordinary commercial contract and that such transaction was on general principles outside the ordinary doctrine of immunity, but the Court would not agree. It had been held that the mere fact that a foreign sovereign had agreed to submit to the jurisdiction was wholly ineffective if the sovereign chose to resile from it. Nothing short of an actual submission, in the face of the Court, would suffice. (*Kahan v. Federation of Pakistan* (*Solicitors' Journal*, September 1st, 1951).)

Executors: Revocation of Probate

A somewhat unusual application came recently before Karminski, J., in *Re The Estate of Galbraith, deceased* (*Solicitors' Journal*, August 25th, 1951). The two executors of the deceased proved his will in 1945. The administration of the estate was difficult, consisting as did the estate in part, of shares in Argentine companies. Medical evidence testified to the fact that both executors were now old and infirm and incapable of properly administering the estate. The Court was asked to revoke probate and to grant the applicant letters of administration *de bonis non*. All interested parties consented.

Karminski, J., said that it was for the Court to look after the interest of the estate and the beneficiaries and, following the decision in *In the Goods of Loveday* ([1900] P. 156), he made the necessary order.

Estate Agent: Commission

A fine point was decided in the Weston-super-Mare County Court in April last by His Honour Judge Paton in *Lalonde Bros. and Parham v. Reynolds* (*Law Journal*, August 31st, 1951). The defendant contracted to buy a house and to pay commission to the plaintiffs if they should 'introduce a person able, ready and willing to purchase'. Mrs C. was introduced for this purpose on November 10th, 1950. At that date although the prospective buyer had moneys with which to effect the purchase, they were not available until the consent of the Bank of England had been given. This did not arrive until November 27th, reaching her agent on November 30th, when it was discovered that the property had been sold to another buyer.

The learned judge held that the prospective buyer was not in a position to complete until she had learned that the permission of the Bank of England had been given. Moreover as the offer was made subject to contract, she could have withdrawn her offer. In his view, therefore, she was not able to effect the purchase and thus the plaintiff had not introduced a buyer able and ready to purchase.

Contract: Motor-car Covenant

In *B.M.T.A. v. Gilbert* (*Law Journal*, August 24th, 1951) Danckwerts, J., found for the plaintiffs in an action in which the defendant sought to contend that the usual two-year covenant was unreasonable. The learned judge held (*a*) that the restrictions on resale were in the interests of the public and of honest car dealers; that, therefore, the two-year period was not unreasonable and that the restrictions were valid and binding; (*b*) that in spite of the fact that there was no legitimate market in cars subject to such covenants, the measure of damages was the difference between the value of the car in the open market and the price of the car as listed by the dealers.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Capital Employed

SIR, – It is a sign of progress that it is now much more common for management to assess relative profitability on the basis of capital employed. Capital employed is still, however, sometimes confused with net worth. Further, accountants do not always compile capital employed figures on the same basis. There appear to be different views on the treatment of bank overdrafts of a permanent nature; reserves for future liabilities; amounts held in trust, such as pension funds. Again, the method of valuing stocks can also affect this figure. It is very important that accountants should agree in their method of calculation.

Further, government contracts are again becoming a major factor in industrial activity. Argument on this subject between the manufacturer and the Treasury would be reduced to a minimum if there were established an accepted practice in the profession.

It would be interesting to have other views on this subject.

Yours faithfully,
F. SIMMONDS,
Secretary and Chief Accountant,
K. & L. STEELFOUNDERS & ENGINEERS LTD
Letchworth, Herts.

Costing of Industrial Salt Bath

SIR, – I should be glad if any of your readers could suggest a method by which the operations connected with a salt bath can be costed.

This item of plant is used for normalizing components manufactured from light alloy, and consists of a closed tank charged with five tons of salt, and heated by gas burners to a temperature 500° F. Components are immersed in this solution for a period of fifteen minutes.

A small wastage occurs which necessitates 'topping up' the bath frequently. The bath could contain a large number of small components or a small number of bulky components, so that bulk as well as weight have a bearing on the calculations.

Yours faithfully,
RELDIF.

Building Society Interest

SIR, – With reference to Mr Neate's comments on this matter in your issue of September 29th, the following observations appear relevant:

The Commissioners receive the same amount of income-tax (as near as may be computed) as they would have received if the special arrangement had not been in force; and if for sur-tax purposes tax is leviable on £4 5*s* 8*d* (from the example given) instead of on the true gross rate of £3 1*s* 0*d*, then the *total tax* receivable will be greater than it would have been if the special arrangement had not been in force. This seems to be inadmissible under the proviso to subsection (1) of Section 23 of the Act, and it seems equitable that sur-tax should be levied on the true gross rate. In this way the total tax receivable would be the same as if the special arrangement for building society interest had not been applied.

Yours faithfully,
For W. & J. LEIGH LTD,
P. LEIGH BRAMWELL,
Bolton. *Director.*

Quoted and Unquoted Investments

SIR, – A synthesis of the law on the point raised by 'Menthab' (August 25th issue) in the words of the Companies Act, 1948, is:

Eighth Schedule (1) (*a*)

There shall be shown under separate headings, the aggregate amounts respectively of:

(i) The company's trade investments,
(ii) [The company's] quoted investments other than trade investments (subdivided, where necessary, to distinguish the investments as respects which there has, and those as respects which there has not, been granted a quotation or permission to deal on a recognized Stock Exchange: *Eighth Schedule*, 8 (*3*)).
(iii) [The company's] unquoted investments other than trade investments.

'Menthab's' auditor is thus right; his action in qualifying his report, in view of the terms of the statutory report 'the information required by this Act in the manner so required', is properly within his discretion.

Yours faithfully,
Colombo. J. S. THWAITES.

SIR, – I read with interest 'Menthab's' letter appearing in the issue of August 25th.

The recommendation of the Cohen Committee with regard to investments was perfectly clear, and paragraph 8 (1), Part I, Eighth Schedule to the Companies Act is, in my view, also clear, viz. that under this subsection there is no need to differentiate between quoted and unquoted trade investments, and no need to insert the market value of the former. I can, however, visualize circumstances in which the market value of trade investments varies to a considerable degree from the book value. In such instances it might well be that if this fact was not disclosed in the balance sheet that document would not show a 'true and fair view' of the company's position. Under

these circumstances it would also obviously be necessary to divide the trade investments between quoted and unquoted. Is this what 'Menthab's' auditors had in mind? If not, I should be interested to hear how the words in the reference to the Companies Act indicated above, could be construed to require the two classes of trade investments to be shown separately in the balance sheet and the market value disclosed.

Yours faithfully,
ROMNAN.

Stocks, Standards and Variances

SIR, – I was interested in the article by Mr F. Clive de Paula in your issue of September 15th last. It appears to me that there are many accountants using standard costs who have been faced with this problem and who have evolved a system to cope with it falling within the limits of expediency, conservatism and consistency.

When commencing a system of standard costs, the work in process and finished stock are revalued for costing purposes at standard and the departmental raw material stocks at fixed prices. As these stocks stand in the financial ledger at balance sheet valuation, it is necessary to adjust them to standard cost by an entry, the other leg of which is entered into a stock provisions account.

The costing department produces its cost statements either monthly or quarterly to show the standard cost of production and the variances which bring it back to the actual cost of production.

The standard cost of production is credited to the manufacturing account and debited to the finished stock account, the standard cost of sales is credited to the finished stock account and debited to the cost of sales account, and the variances are debited or credited to the manufacturing account and debited or credited to the cost of sales account. It will be seen that the balance on this cost of sales account is not consistent with previous years because the stocks were valued at standard and fixed price at the beginning and end of the period.

In the stock provision account is the figure which was used to write the opening stocks to standard and fixed price. The closing stocks are, therefore, brought back to actual by another provision, the other leg of which is again posted to the stock provision account; the balance on the stock provision account represents a profit or loss to the firm, which is due to the rise or fall in the value of stocks caused by price fluctuations or by alterations in efficiency, wages rates, etc., and it is important that this figure should be known to the management. This balance is transferred to the cost of sales account and the financial position has now been ascertained on a basis consistent with previous years.

The following system may be used to bring stocks back to actual:

(1) Revalue departmental stocks of raw materials on the same basis as before the change to standard costs (this can sometimes be done quite efficiently by a percentage).

(2) Revalue the work in process stocks by using a percentage, varying according to the particular stage of manufacture. The full percentage will be the percentage of the total actual cost of production to the total standard cost of production. The other percentages will be based on an actual cost of production, including the price variances, but only part of the other variances, according to how much of them could have been incurred at that stage.

(3) Revalue finished stocks by using the full percentage ascertained above.

This system depends on the pattern of stocks being similar to the pattern of production. Actual costs of products can be prepared by analysing the variances by products and adding them to the product standard cost. If this can be completed in time, the finished stocks can be evaluated on this basis to overcome the pattern difficulty.

Yours faithfully,
ALAN KERSHAW,
T.D., A.C.W.A., A.A.C.C.A.

Prestwich, Manchester.

The Late Rev. R. H. S. Gobbitt, M.B.E., M.A., A.C.A.

SIR, – I recently came across a letter written on June 7th by one of the former parishioners of the late Rev. R. H. S. Gobbitt, M.B.E., M.A., A.C.A., following my sending her the report of his death that appeared in *The Accountant*:

> 'Yes, I knew him well, he was one of the best priests I have ever met. He was clever and good, and such a worker – plain, outspoken, full of energy, he was at St Martin's (Bristol) twelve years. When first he came to St Martin's, after Sunday night service he would go down to the docks and preach to a crowd of dockers. He was clever at music and to hear him lead the singing was a joy. Some folk complained about him talking too loudly, *he had got a voice.* One Good Friday I was in church with only the congregation – not many of us – struggling through a hymn until he came to our help.
>
> 'I forgot to mention he was terribly injured in the war and was in hospital nearly four months, and was crippled for life. He had just helped a family with small children to safety when he was wounded by a bomb. I am sorry not to have saved all the magazines during those months, when he wrote such wonderful letters to his parish and never complained of his affliction. He was truly great.'

Maybe some of your readers will occasionally spare a thought, after the junketings of Torquay, for the chartered accountants who have not remained in the profession, nor gone into commerce, nor into nationalization, nor the Civil Service, but into the ministry.

Yours faithfully,
Newport, Mon. C. GORDON JOLLIFFE.

[illegible] *ute on Thursday,* [illegible] *2 p.m.*

[illegible] W. G. Campbell (in the chair); Messrs K. W. [illegible]van, T. Fleming Birch, J. B. Burnie, J. Cartner, D. A. Clarke, J. Clayton, E. H. Davison, W. G. Densem, R. B. Dixon, E. S. Foden, F. M. Gilliat, G. S. Hamilton, S. C. Hand, E. A. Harris, K. Johnson, E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., J. W. G. Mitchell, R. A. Marden, H. Norris, A. H. Proud, A. P. Ravenhill, P. M. Rees, M.C., P. V. Roberts, L. W. Robson, S. A. Spofforth, C. M. Strachan, O.B.E., H. F. Strachan, G. H. Thomas, W. F. Tidswell, R. Walton, and G. H. Yarnell, with an Assistant Secretary of the Institute, and Mr K. H. Saunderson, Assistant to the Taxation and Research Committee.

Full-time Assistant

The secretary reported that Mr K. H. Saunderson, A.C.A., had been appointed as Assistant to the Taxation and Research Committee for a period of up to three years to undertake reference work and drafting for the committee and its sub-committees.

Standing Sub-Committees

Reports of sub-committees as below were received and discussed:

- Cost Accounting Sub-Committee – Mr E. H. Davison.
- General Advisory Sub-Committee – Mr G. S. Hamilton.
- Taxation Sub-Committee – Mr F. M. Gilliat, including report of the submission by the Council of three memoranda, in the preparation of which the sub-committee had taken a leading part, namely, memorandum for the Tucker Committee on Taxation Treatment of Provisions for Retirement, Part A memorandum for the Royal Commission on the Taxation of Profits and Income, and memorandum to the Chancellor of the Exchequer on the Finance Bill, 1951.

Ad Hoc Sub-Committees

The chairman of two special sub-committees reported progress.

Next Meeting

The next meeting was fixed for Thursday, September 20th, 1951, at 2 p.m.

The sixty-first meeting of the Taxation and Research Committee was held at the Institute on Thursday, September 20th, 1951, at 2 p.m.

Present: Mr W. G. Campbell (in the chair); Messrs T. Fleming Birch, E. P. Broome, J. B. Burnie, J. Cartner, D. A. Clarke, J. Clayton, E. H. Davison, W. G. Densem, R. B. Dixon, F. J. Eves, W. W. Fea, E. S. Foden, F. M. Gilliat, G. G. G. Goult, G. S. Hamilton, S. C. Hand, E. A. Harris, N. B. Hart, O.B.E., T.D., E. N. Macdonald, D.F.C., J. H. Mann, M.B.E. R. A. Marden, G. P. Morgan-Jones, T. P. Nicholls, A. H. Proud, P. M. Rees, M.C., P. V. Roberts, C. M. Strachan, O.B.E., W. F. Tidswell, R. Walton Institute, and Mr K. [illegible] Taxation and Research Co[illegible]

Standing Sub-Committees

Reports of standing sub-committees as below were received and discussed:

- Cost Accounting Sub-Committee – Mr E. H. Davison.
- General Advisory Sub-Committee – Mr G. S. Hamilton.
- Taxation Sub-Committee – Mr F. M. Gilliat.

Ad Hoc Sub-Committees

The chairmen of two special sub-committees reported progress.

Membership

The following appointments to membership of the committee for the year commencing October 1st, 1951, were reported:

Nominated by Council: Appointments not yet made.

Nominated by District Societies: Birmingham: Messrs R. B. Dixon, F.C.A., W. F. Tidswell, A.C.A. *Bristol:* Messrs E. A. Harris, F.C.A., P. V. Roberts, A.C.A. *East Anglia:* Messrs F. J. Eves, F.C.A., G. G. G. Goult, F.C.A. *Hull:* Messrs N. B. Hart, O.B.E., T.D., F.C.A., H. F. Strachan, F.C.A. *Leeds:* Messrs. J. W. G. Mitchell, F.C.A., R. Walton, F.C.A. *Leicester:* Messrs K. Johnson, F.C.A., G. H. Thomas, A.C.A. *Liverpool:* Messrs E. N. Macdonald, D.F.C., F.C.A., C. P. Turner, A.C.A. *London:* Messrs D. A. Clarke, F.C.A., J. Clayton, A.C.A., E. H. Davison, A.C.A., W. G. Densem, F.C.A. *Manchester:* Messrs F. Carruthers, A.C.A., F. M. Gilliat, F.C.A. *Nottingham:* Messrs J. B. Burnie, F.C.A., R. W. Cox, F.C.A. *Sheffield:* Messrs S. C. Hand, A.C.A., A. G. Thomas, F.C.A. *South Eastern:* Messrs W. P. Elliott, O.B.E., F.C.A., G. H. Yarnell, F.C.A. *South Wales:* Messrs R. P. Brown, A.C.A., and E. S. Foden, F.C.A.

The following members were co-opted for the year commencing October 1st, 1951:

Messrs K. W. Bevan, A.C.A., J. Cartner, A.C.A., Stanley Dixon, A.C.A., G. S. Hamilton, A.C.A., J. Latham, C.B.E., A.C.A., J. H. Mann, M.B.E., F.C.A., R. A. Marden, A.C.A., G. P. Morgan-Jones, F.C.A., T. P. Nicholls, A.C.A., H. Norris, A.C.A., R. J. Ogle, A.C.A., and A. H. Proud, A.C.A.

Appointments to Sub-Committees

The following members were appointed to standing sub-committees for the year commencing October 1st, 1951:

Cost Accounting Sub-Committee: Chairman (*ex officio*), Vice-Chairman (*ex officio*), Messrs K. W. Bevan, R. P. Brown, W. G. Campbell, D. A. Clarke, J. Clayton, E. H. Davison, S. Dixon, W. P. Elliott, O.B.E., W. W. Fea, R. A. Marden, R. J. Ogle, C. N. Storey, and H. F. Strachan. *Recommended for co-optation:* Messrs H. P. Finn, A.C.A., J. B. Prentice, F.C.A., A. C. Unthank, F.C.A., and F. J. Weeks, A.C.A.

General Advisory Sub-Committee: Chairman (*ex officio*), Vice-Chairman (*ex officio*), Messrs T. Fleming Birch, J. B. Burnie, W. G. Campbell, F. Carruthers, J. Cartner, D. A. Clarke, E. H. Davison, W. G. Densem, F. J. Eves, W. W. Fea, G. S. Hamilton, J. Latham, C.B.E., J. H. Mann,

...mat, G. G. G. Gould, ... A. Harris, N. B. Hart, ... Macdonald, D.F.C., G. P. ... oud and R. Walton. *Recommended for co-optation:* Messrs H. D. Bessemer, F.C.A., and J. F. Talbot, A.C.A.

Campbell, F.C.A., ... the past year.

Ne...

The next meeting was fixed provisionally for Thursday, October 18th, 1951, at 2 p.m.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on October 3rd, 1951, who completed their Fellowship or Membership before October 15th, 1951.

Associates elected Fellows

Bangham, Harold Lawrence; 1920, A.C.A.; (*Frank A. Bevan & Co), Exchange Buildings, Swansea.
Blake, Alfred Charles; 1930, A.C.A.; Excel House, Whitcomb Street, London, WC2.
Butterworth, Edwyn Mansfield; 1930, A.C.A.; (Gordon Emery & Co), Smith's Bank Chambers, Market Place, Derby, and at Blackpool and Manchester.
Claypole, Harold Alfred Blunt, T.D.; 1936, A.C.A.; (Hall, Winder & Co), 4 Queen Victoria Street, London, EC4.
Cruse, John Bryon, T.D.; 1933, A.C.A.; Queen Anne Chambers, The Strand, Barnstaple.
Davey, Peter Doidge; 1939, A.C.A.; (Wood, Drew & Co), 65 & 66 Chancery Lane, London, WC2.
Davies, Frederick Llewellyn; 1933, A.C.A.; (Davies, Downs & Co), 82 Sankey Street, Warrington.
Edgcumbe, Stanley; 1939, A.C.A.; (Whitmarsh, Edgcumbe & Co), 70 Mutley Plain, Plymouth; also at London (Whitmarsh, Edgcumbe, Turner & Co); Taunton (*Whitmarsh, Job & Co); Helston and Truro (*Whitmarsh, Kitchen & Co).
Fitch, Walter Arthur; 1924, A.C.A.; (Wilkinson & Mellor), Leadenhall Buildings, 1 Leadenhall Street, London, EC3.
Harrison, George William; 1940, A.C.A.; (Lancaster & Co), 30 Waterloo Road, Wolverhampton, and at Tipton.
Henshaw, Thomas William; 1938, A.C.A.; (Gordon Emery & Co), Smith's Bank Chambers, Market Place, Derby, and at Blackpool and Manchester.
Hill, William Charles Manning; 1930, A.C.A.; (Ogden, Manning Hill & Co), 11 Clarence Street, Cheltenham, and at Mexborough, Stratford on Avon and Winchcombe.
Lofthouse, Ronald, M.C.; 1939, A.C.A.; (Graham Proom & Smith), 18 John Street, Sunderland, and at Newcastle upon Tyne.
Luetchford, Leslie Frederick; 1924, A.C.A.; (Wilkinson & Mellor), Leadenhall Buildings, 1 Leadenhall Street, London, EC3.
Ogden, Harry Turner; 1928, A.C.A.; (Ogden, Manning Hill & Co), 11 Clarence Street, Cheltenham, and at Mexborough, Stratford on Avon and Winchcombe.
Raymond, George Arthur; 1931, A.C.A.; (Creasey, Son & Wickenden), 12 Lonsdale Gardens, Tunbridge Wells, and at Bexhill, Chatham, London and Tonbridge.
Smith, Denis Augustine; 1937, A.C.A.; (Wright & Westhead), 1 Martin Street, Stafford, and at Wolverhampton.
Watkinson, Alfred Sheppard; 1930, A.C.A.; (Bowman, Grimshaw & Co), 26 Birley Street, Blackpool, and at Fleetwood, Garstang and London.
Wilkinson, John Walter Ogle; 1938, A.C.A.; (Wilkinson & Mellor), Leadenhall Buildings, 1 Leadenhall Street, London, EC3.
Young, Charles Ernest Bermingham; 1928, A.C.A.; (Reeves & Young) and (Reeves, Gothard & Farries), 8 Laurence Pountney Hill, London, EC4; also at Canterbury (Reeves & Young).

(Not in England or Wales)

Benson, Derek Jessel; 1933, A.C.A.; (*Lowe, Bingham & Thomsons), Naka 9th Building, 14 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo, and at Kobe and Shanghai; also at London and Singapore, (*Lowe, Bingham & Matthews).
Villiers, Harold Roger; 1934, A.C.A.; (*Peat, Marwick, Mitchell & Co), 12 Market Street, Kuala Lumpur.

Admitted as Associates

(Not in Practice)

Blackstone, Hugh Vaughan, with *Hogg, Bullimore & Co, River Plate House, Finsbury Circus, London, EC2.
Coole, Roger Nicholas, with Tansley Witt & Co, 22–24 Ely Place, London, EC1.
Francis, John Henry; with Bland, Carryer & McAlpin, 3 St Martins East, Leicester.
Greer, Alexander Hugh Courtney, 70 Bertram Road, Hendon, London, NW4.
Hunter, Colin James, Selhurst Lodge, Tavistock Road, Hartley, Plymouth.
Illingworth, Eric Henry, with *Armitage & Norton, Station Street Buildings, Huddersfield.
Morphy, George Philip, with Moore & Smalley, 9 Chapel Street, Preston.
Newcomb, Charles Buckle, with Jackson, Pixley & Co, Kent House, Telegraph Street, London, EC2.
Ross, William Robert Metcalfe, with Turquand, Youngs & Co, 19 Coleman Street, London, EC2.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the Supplemental Royal Charter of December 21st, 1948, at a hearing held on September 5th, 1951.

The Appeal Committee heard an appeal against the finding and decision of the Disciplinary Committee of the Council upon the following formal complaint

preferred by the Investigation Committee of the Council to the Disciplinary Committee:

> That Ernest John Woodhams, a member of the Institute, has failed to pay the subscription payable by him under clause 11 of the Supplemental Royal Charter and bye-law 42 in respect of the year 1951 for four months after the same has become due so as to render himself liable under clause 21 (7) of the Supplemental Royal Charter to be excluded from membership or to be suspended for a period not exceeding two years from membership.

Having considered the record of the evidence given before and documents produced to the Disciplinary Committee and subsequent correspondence passing between the appellant and the secretary of the Institute, the Appeal Committee affirmed the finding and decision of the Disciplinary Committee that the formal complaint against Ernest John Woodhams had been proved and that Ernest John Woodhams of 129 Queensway, London, W2, be excluded from membership of the Institute.

London and District Society of Chartered Accountants

A lecture entitled 'Points arising on the Finance Act, 1951' will be given by Mr Frederick Grant, K.C., on Tuesday next, October 23rd, at 6 p.m., in the Hall of the Chartered Insurance Institute, Aldermanbury, EC2.

The Chartered Accountant Students' Society of London

The special course of lectures for Final candidates will be given during the week Wednesday, October 24th, to Tuesday, October 30th (except Saturday). Lectures will begin at 9.30 a.m. each day and finish at 5 p.m. On two evenings there will be special lectures and demonstrations of typewriter pattern and punched card accounting machines.

The lectures are intended to provide students, after they have already covered the text-book knowledge of their subjects, with the practical aspect expounded and demonstrated by speakers whose daily work gives them special experience in the fields of modern accounting methods, liquidations and bankruptcy, the Stock Exchange, building societies, costing, trusteeship, foreign trade, industrial accounting, insurance, banking, consolidation of accounts and company finance.

Applications for the course should be made to Mr R. J. Carter, B.COM., F.C.A., Secretary, Chartered Accountant Students' Society of London, Finsbury Circus House, Blomfield Street, EC2.

Indian Income Tax

Relief Based on World Income

The Commonwealth Relations Office announced last Wednesday that many people living in this country who draw income from India will have to pay a lot more Indian income-tax and super tax under recent Indian legislation than they need unless they promptly exercise their right to be taxed in future under the old system.

All pensioners of the Government of India have been told about this legislation and advised what to do. But other people are also affected. The Government of India put a notice in certain United Kingdom newspapers on July 27th, describing the recent changes in Indian legislation. This notice seems to have escaped the attention of many people concerned in the United Kingdom: for instance, owners of property in India or of shares in companies registered in India, and pensioners of Indian companies.

Briefly, everyone in the United Kingdom who draws income from India and who is due to pay Indian income-tax this year will from now on have to pay tax on the whole of that income at the rate of at least 8*s* in the £, unless he makes a declaration in writing, to reach his Indian income-tax officer before October 31st, 1951, that he wishes his Indian tax to be assessed 'by reference to his total world income', in which case he will be assessed on a sliding scale according to the size of his income from all sources. At present rates, everyone will find it worth his while to make such a declaration unless his income from all sources is well over £5,000 a year. There is one important condition, the declaration will be binding for all future years.

If time permits, persons drawing income from India can obtain further particulars from the Chief Accounting Officer, Office of the High Commissioner for India, 55 Jermyn Street, London, W1, but declarations, to be effective, must reach India by October 31st.

Double Taxation Relief: Norway

An Order in Council in respect of the double taxation agreement with Norway relating to taxes on income was made on October 4th, and has now been published as Statutory Instrument 1951, No. 1798.

The Institute of Actuaries

An ordinary general meeting of the Institute of Actuaries will be held in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, EC2, on Monday, October 29th, at 4.45 p.m., when Mr R. F. Harrod, F.B.A., will open a discussion on 'Savings and inflation'. Members may bring guests.

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The Institute of Cost and Works Accountants

MIDLAND REGIONAL CONFERENCE

The second regional conference of the winter session took place at Birmingham on Saturday last, October 13th, delegates being welcomed by the Lord Mayor, Alderman R. C. Yates, after which consideration was given to a paper 'Experiences in applying standard costing for job production', by Mr C. E. Power, F.C.W.A., A.C.A. During the afternoon a paper was given by Mr K. B. Warwick, A.M.I.MECH.E., on 'Material handling and its effect on cost'. Before this paper was submitted, a film was shown which depicted industrial operations where considerable saving had been made as a result of applying the techniques of mechanical handling.

At the luncheon held during the proceedings, the guest of honour was Mr J. J. Gracie, C.B.E., M.I.E.E., F.I.I.A., general manager, Witton Works, General Electric Co Ltd. Mr Gracie, a member of the Council of the British Institute of Management and a prominent industrialist, humorously recalled in his speech the good old days when the 'boss' employed the accountant and told him what to do. He suspected that present-day accountants had evolved a complex jargon to wholly blind the 'boss' with science. On a more serious note, he underlined the great need for accountants and other specialists in industry to express themselves in language which could be plainly understood by both management and workers.

The conference was a great success and must have given pleasure to the President of the Institute, Mr A. W. Muse, F.C.W.A., F.A.C.C.A., who is a member of the sponsoring branch and chief accountant of the Public Works Department of the Birmingham Corporation.

Association of Certified and Corporate Accountants

Mr N. A. H. Stacey, assistant secretary of The Association of Certified and Corporate Accountants, has been awarded a Smith-Mundt Senior Research Grant by the United States Government, and will work as a visiting scholar at the University of Columbia, New York.

The object of his visit is to study current accounting development in the United States with special reference to education and research. Mr Stacey has been an assistant secretary of the Association since 1946. Previously he was a member of the editorial staffs of the *Financial News* and the *Financial Times*. He studied economics at the Universities of Birmingham and London, and in Hungary.

Personal

MESSRS R. F. MILLER & Co, Chartered Accountants, of Ramsden Square, Barrow-in-Furness, regret to announce the death on September 30th, 1951, of one of the partners, Mr RONALD CASSON WHINERAY, F.C.A. The practice will be continued under the same firm name by the remaining partners.

MR MAURICE SHERMAN, Chartered Accountant, practising in the name of MAURICE SHERMAN & Co, of 81 High Holborn, WC1, has now taken into partnership Mr MAURICE APPLE, Chartered Accountant, and the name and address of the firm has been changed to SHERMAN, APPLE & Co, 18 Seymour Street, Portman Square, W1.

THE practice carried on by Mr HENRY SMITH, F.S.A.A., who until September 30th, 1951, was a partner in the firm of FRED. A. FITTON, WILSON and MARTIN, 30 Cross Street, Manchester, 2, has been amalgamated with that of J. D. HAMER & Co, 1 Chancery Place, Booth Street, Manchester, 2. The joint practice will be carried on in the name of HENRY SMITH, HAMER & Co, of 1 Chancery Place, Booth Street, Manchester, 2. Telephone: Blackfriars 2205 and 2975, and at Larkhill Buildings, St George's Road, Bolton. Telephone: Bolton 5553. The partners are: Mr HENRY SMITH, F.S.A.A., Mr J. D. HAMER, F.S.A.A.(HONS.), Mr J. A. HAMER, A.S.A.A., and Mr P. D. SMITH, A.S.A.A.

Recent Publications

A COMPARATIVE EXAMINATION OF THE METHODS OF SCHEDULING ACCOUNTS AND EXPENDITURE ANALYSIS used by Local Authorities in England and Wales, by John Drury, A.I.M.T.A. 110 pp. 8½ × 5½. 20s net. The Institute of Municipal Treasurers and Accountants (Incorporated), London.

KEY TO INCOME TAX, 1951–52, Finance Act, 1951, edition. 223 pp. 8½ × 5½. 7s 6d, post free 7s 9d. Taxation Publishing Co Ltd, London.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 21ST, 1876

Heavy Sentence on a Fraudulent Bankrupt

At the Perth Circuit Court, before Lord Young, Thomas Methven, farmer, was charged with having, just previous to declaring himself bankrupt, purchased twenty-five cattle, for which he did not pay, and with having concealed £800 in money. Prisoner falsely alleged that his son, a young boy, had burned accidentally several £100 notes. Lord Young said that as prisoner had pleaded guilty to buying the cattle, but refused to tell where the money was hid, he could not pass a less severe sentence than fourteen years' penal servitude.

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The Accountant

ESTABLISHED 1874

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AUSTRALIAN ACCOUNTING PRINCIPLES

In recent years, the Council of The Institute of Chartered Accountants in Australia has issued to members of the Institute a series of recommendations on principles regarding the construction of company accounts. It has now followed this up with a statement of what it regards as the accepted general principles of professional auditing practice. This has been considered necessary because the Companies Acts of the several States lay down only a broad minimum with which the auditor must comply, and it is essential that the opinions he expresses on the accuracy of company accounts should be based on firm accounting principles which are recognized and accepted by the profession throughout the country. Any decline in these standards would invariably result in a weakening of the prestige and authority of the profession in Australia as a whole.

In order that these general principles may be seen in their proper perspective, the Council has prefaced its statement with some observations on the inherent limitations of financial accounts and the consequent responsibilities of the auditor in commenting on them. Accounts, it points out, are historical in character and are based partly on conventions, estimates and opinions. They are not, and cannot be, statements of fact so that the auditor cannot certify their accuracy to be absolute. He can at best report that, in his opinion, the balance sheet and (if required by law) the profit and loss account, exhibit a true and correct view of the company's affairs. To be able to do so, he must have carried out what, in his expert judgment, constituted a sufficient check of the company's transactions and have satisfied himself that where estimates had to be made, the decisions of the directors or other officials responsible were reasonable. He must also have satisfied himself as to the soundness of the accounting methods employed and the wisdom and consistency shown in applying them. The Australian Companies Acts do not contemplate any limitations of the auditor's duty in these respects. His unqualified report implies that in the course of his audit he has exercised reasonable care and skill expected of him as a professional auditor, irrespective of whatever weaknesses there may have been in the company's system.

The Council begins the main part of its statement by saying that, despite the growth and complexity of modern business, the general principles governing the planning of sound auditing procedures have remained unchanged throughout the years. There has, however, been a change of emphasis. Audits of principle, calling for the greater use of intelligence and skill, have taken

the place of routine detailed audits. Under present-day conditions, only a test of the transactions in the accounting period under review can, in most cases, be made. Accordingly, the audit, while a safeguard, cannot be regarded as a complete safeguard. To make it more nearly so, an exhaustive examination of every material entry in the company's books would have to be undertaken, and the cost of this scrutiny would almost certainly outweigh any advantages to be derived from it. The Council considers, therefore, that:

> 'the auditor in the exercise of his professional skill must properly balance the benefits to his client against the cost involved, and develop a plan of audit that, with management's collaboration, will secure reasonable protection at reasonable cost'.

Some remarks made recently by MR W. H. LAWSON, C.B.E., B.A., F.C.A., in his address on auditing at the summer course of The Institute of Chartered Accountants in England and Wales at Oxford were very relevant to this pronouncement.[1] After listing twelve routine matters in which the client's staff could co-operate with the auditor to facilitate the progress of the audit, he went on to say:

> 'in the evolution of future audit practice, much must depend upon ever increasing collaboration between accountants who are in practice and those who are in industry. With the growth of large-scale undertakings and of mechanized accounting the auditor is becoming increasingly dependent upon the system of control exercised by the company itself over its day-to-day transactions. In so far as this tends to relieve the auditor of much routine checking, it is an advantage which should make for more efficient and useful audits'.

The first task of the auditor in developing the plan of the audit is to appraise the soundness of the accounting methods employed and the effectiveness of the system of internal control, for the scope and character of his subsequent detailed check will depend on the strength or weaknesses revealed by his initial survey. This, the Council considers, is an essential duty and the auditor's client is entitled to rely on it being done as a preliminary to the audit. Legal responsibility for safeguarding a company's assets rests primarily with the directors, and they must be reassured that in the internal control system of the company they have a device which, if it cannot prevent fraud, will at least ensure its prompt detection. In this connexion, the auditor must satisfy himself during the audit that no frauds by persons outside the scope of the internal control scheme, e.g. the directors themselves, have been committed.

[1] *The Accountant*, October 6th and 13th, 1951.

When the auditor has carried out his survey of the system he should then be in a position to determine the extent of his detailed check. It is the Council's opinion that he need not duplicate the work of the internal control system, but practical tests should be made to ensure that it is working properly. It should also be constantly under revision in the light of staff changes or alterations in company policy. In small companies, where little or no effective internal control exists, it is necessary to guard against the audit creating an unwarranted sense of security in the minds of the management, and the distinction between the two forms of supervision should be made clear.

The Council concludes by stating that the selection, as a fair sample of the whole, of a test period in which to check the detailed transactions and the extent to which the detailed transactions in that period should be checked, call for the highest degree of professional skill and judgment on the part of the auditor. It suggests that transactions during the sample period may be, where practicable, reviewed functionally: for example, purchases of raw materials might be traced from the original orders to the eventual payments to suppliers. But whatever pattern of checks is chosen it must be sufficiently thorough to enable the auditor to assess the reliability of the records as a whole.

MR J. S. FOULKES, the President of The Institute of Chartered Accountants in Australia, emphasizes in his foreword that, in view of the effect of circumstances, the recommendations are intended merely as a guide to, and not as a standard of, proficiency. This is readily understandable, for in such a profession as auditing, where no two audits – or, for that matter, no two auditors – are alike, there can be no complete substitute for individual initiative. At the same time, it is stimulating to note that the general principles enunciated in this Australian pamphlet are so close to those preached – and put into practice – in Great Britain, because it indicates that the members of the profession in both countries are starting from the same sound premises.

BLEAK PROSPECT

THE trade returns of the last few months have made it abundantly clear that a large deficit on the United Kingdom's overseas balance is in prospect. This has been confirmed by the half-yearly White Paper on the Balance of Payments (Cmd. 8379), which shows that for the first half of the year the net deficit was £122 million. For the whole year it may well amount to £350 to £400 million. A large deficit on our dollar account is no new feature for this country, unfortunately, but the present situation is more than usually serious. Comparison with 1949 is illuminating. The United Kingdom's own balance of payments is far worse now than two years ago, when a large dollar deficit was matched by an almost equally large surplus with the sterling area. This time, there is no such large surplus, and during the first half of 1951, sterling balances held by other countries increased by £370 million. Moreover, it has just been reported that, in, September, Britain incurred a net deficit of £73 million with the European Payments Union. In consequence of heavy imports from Western Europe this country has become a debtor to the Union for the first time since its inception. By now, it may well be that we have passed the limit up to which we could borrow without repayment in gold.

Many unpleasant consequences can conceivably follow these trade movements; only two can be touched upon here. In the first place the country must make a determined effort to bring imports into balance with exports and invisibles. This can only be done by reducing imports and expanding exports. The magnitude of this task, which should not be underrated, is comparable almost with the burden of defence. The sacrifices which these two burdens entail have only been hinted at so far, but it would appear that unless we are prepared once more to seek American aid and are successful in getting it, life during the next few years is likely to be rather bleak, to say the least. Increased production could lessen the burden, and, of course, it is to be hoped that some relief will be obtained in this way. But shortage of materials and manpower will severely limit possible production increases. Many people must have wondered why it was possible for consumption to increase this year in spite of defence expenditure. The answer is that the growing adverse trade balance is the source of these additional resources. Next year consumption must fall heavily as imports are reduced and exports of consumer goods are pushed to the limit.

In common with earlier balance of payments crises which have affected this country and its fellow-members of the sterling area, this one is likely to be accompanied by a request to the Commonwealth countries to reduce their dollar imports. The Commonwealth countries have in the past loyally shared the burden falling on the sterling area, but should they at any time decide that their interests would best be served by curtailing their support, it would inevitably weaken sterling and make immeasurably more difficult the payment for imports from dollar areas. The present crisis is worse from the point of view of the rest of the sterling area than those which have preceded it. In 1947 and again in 1949, cuts in imports from U.S.A. could, to a certain extent, be offset by additional exports of capital goods from Britain. There is now very little scope for further exports of capital goods from this country since the engineering industry will soon be involved heavily with the rearmament programme. The Commonwealth countries are well aware of this and their attitude to a reduction of their dollar imports will doubtless be influenced by this fact.

It is fortunate in some ways that the sterling balances are now largely held by Commonwealth countries; particularly Australia, who has decided to retain the whole of that country's gold output and use it as an independent reserve. South Africa has long been selling gold in the free market, and India is following Pakistan in its request that she be allowed to convert some of her sterling into gold; while Ceylon, a net dollar earner, is anxious to obtain a greater measure of independent control of her foreign earnings. It cannot be gainsaid that the achievement of a balance between Britains imports and exports, the re-building of the sterling area's reserves to a safe figure, and the maintenance of the unity of the area, is going to prove a formidable task.

COSTING FOR INFLATION – II
INTEREST ON CAPITAL AS AN ELEMENT OF COST

by A. H. TAYLOR, M.C., A.A.C.C.A.

The Comparative Principle in Costing

THE present need for the utmost efficiency in production demands the utmost informativeness in accountancy, which should represent one of the major tools of management. It is questionable, however, whether the conventional methods of cost accountancy are producing the information required in the peculiar economic conditions of the present day. Continuing inflation in the price of labour, material and general overheads has already created, as one of its inevitable consequences, an inflation in the amount and price of the capital required by industry. But the price which must be paid for the use of capital – an essential business expense – is rarely included when the outgoings of a company are traced back to their sources – the different factories, departments, processes and jobs which give rise to the charges. This question of whether to include interest on capital in costs is an old theme of debate to which present circumstances have given a new importance.

Probably the most vital functions of a costing system are:

(*a*) to provide information for management as to the efficiency of departments and processes;

(*b*) to show the profitability of individual products;

(*c*) to assist the sales departments in price-fixing.

All these functions are dependent upon some principle of comparison. In considering efficiency the management will compare costs with standards, budgets, past results, and with the costs incurred by other units of the organization or comparable processes.

The profitability of individual products is an almost daily subject for comparison, and price-fixing is influenced by prices quoted for competitive and alternative articles as well as by the profit obtained by the business from other sales. In less critical days rough comparisons may have sufficed, but in the present period when the margin between profit and loss is often extremely fine and the complexity of business increases daily, a costing system must be arranged to tell the whole truth.

The author's first article under the above title was published in our issue of September 22nd last.

Interest on Capital an 'Effective Liability'

The overheads applied to costs invariably include a proportion which are 'fixed'; that is, those which will vary only after a persistent change in the volume of direct work. But the interest payable on debentures and other loan capital is usually omitted entirely from costs, although it is undeniably a 'fixed cost' of carrying on the business. Costs thus prepared represent merely apportionments of the figures shown in the trading account, and show no reflection of essential charges appearing in the profit and loss and appropriation account which must be met before any profit can be distributed or passed to reserve. Costs which exclude interest on loan capital are clearly incomplete, must seriously hamper the attainment of a budgeted net profit by means of price adjustment or cost reduction, and entirely falsify any attempt at comparing costs or profitability between concerns with different loan capital. The situation is aggravated when there is a tendency to obtain fresh capital by means of loans rather than share issues.

Whilst it is obvious that interest on loan capital must be paid or the business will be speedily brought to an end, it is not perhaps so immediately apparent that exactly the same consequences will ensue if the shareholders fail to be paid a return on their investment at least commensurate with that which they could have obtained on trustee securities.

A failure to pay this minimum in any one year will create an effective debt owed by the company to the shareholders which the latter will expect to be met out of future earnings, in addition to current interest. If this 'effective debt' is not satisfied within a reasonable period the shares will suffer a permanent fall in saleable value, and the company will still have to meet the liability in the consequently enhanced price of obtaining fresh capital. A continued failure to satisfy the minimum return will cause the shareholders to take action to realize what they can out of their holdings, eventually by forcing a liquidation. All shares are 'cumulative' so far as interest (as distinct from profit) is concerned.

The minimum return must obviously be calculated on the sum total of the proprietors' interests, that is, issued capital plus appropriate reserves;

and for this purpose, the writer suggests, the fixed assets should be revalued on the basis of current market prices.

Maintenance of the Capital

The conclusion reached so far is that interest on capital is, on the hard facts of the situation, one of the unavoidable costs of industry. Even though the final accounts of a company are properly drawn up to show a profit, the shareholders, who *are* the company, would not agree that they have made any profit at all unless they become entitled to something more than the return they could have otherwise obtained on, say, 2½ per cent Consols. In many cases the minimum return required will be very much higher according to the current assessment of the risk of depreciation in the value of the investment.

Failure to pay the minimum return on proprietors' interests would create a liability which, although without the same legal force, would be as effective as the liability arising from failure to pay loan interest. The creation of a liability without the gain of an asset equivalent in value is, in effect, a depletion of the capital, and the payment of interest on capital, as distinct from profit, represents therefore, a cost of maintaining the capital intact. If a clear and reliable picture of the cost of producing an article, providing a service or running a department, is to be presented, that picture should surely contain two parts: first, the historical cost, money actually paid away or legal liabilities incurred; and secondly, the cost of maintaining the capital invested in the department or apportionable to the product. This second main ingredient of costs should, it is suggested, include interest on capital as well as other charges, such as replacement costs which are in excess of the depreciation charged in the books. The total so arrived at could be termed the 'current cost' and would provide an accurate basis of comparison for all normal purposes.

Allocating Interest on Capital to Costs

The allocation of interest on capital to departmental and product costs may involve some pitfalls. It would, for instance, be incorrect to apply the charge as a uniform percentage on the historical cost of each department, product or process; for the capital sunk in department A. may be quite out of proportion to that in department B., when considered in relation to their respective output costs. A more logical method would appear to be to allocate to departments the total sum of interest on capital as calculated in the manner proposed above, on the basis of the (current) value of the assets in use in each department, and then to apportion the resultant departmental total on some appropriate costing basis, e.g. machine hours. An interest charge allocated on some such realistic basis will rightly demonstrate that the cost of producing the products, providing the services, and running the subdivisions of an industrial organization, involve varying proportions of interest on capital. It is more than probable that the scientific allocation of interest on capital to costs, would upset many long-established notions as to efficiency and the real source of a company's profits.

The determination of the correct rate of interest which is chargeable on the capital of a company might involve some headaches. Perhaps the appropriate rate is that payable on a long-term loan to the company, and, in any event, professional accountants with a wide knowledge of industry, are well qualified to advise on the matter. Moreover the charging of interest on capital at any reasonable rate would immensely improve the benefit derivable from comparisons of costs between departments, branches and allied undertakings – a productive and popular field of study for management.

Conclusion

The published accounts of leading companies are showing substantial reserves and provisions for such items as the replacement of fixed assets, tax and essential development – all required for the protection of the capital and all growing in importance as a result of the inflationary conditions. At the same time, the appropriation for the service on loans and the payment of dividends includes, it is maintained, an element of interest representing an unavoidable cost of carrying on business. But when, by means of a costing system, the attempt is made to trace the company's outgoings to their source, to the activities which give rise to the expenditure, no reflection of these charges appears.

I have endeavoured to revive an old argument on the grounds only of current business realities and have deliberately ignored the support of economic theory. Whatever the faults of the exposition, it may at least direct attention to the false impressions likely to be created when the financial accounts are subdivided into costs. Costing and financial accountancy must be unified into one science if management is to be given the information it demands in its quest for maximum efficiency.

THE VALUATION OF HOLDINGS IN PRIVATE LIMITED COMPANIES FOR PURPOSES OTHER THAN PROBATE – II

by W. G. CAMPBELL, B.A., F.C.A.

Adjustments for Subsequent Events

IT may now be assumed that the valuer has informed himself of the relevant facts regarding the general background and that he has prepared a statement of the assets together with a summary of the trading results, before taxation, for a period sufficient for his purpose. The adjustments, if any, made to both statements, will be those normally applied for a prospectus certificate in respect of any events occurring between the date of the last balance sheet and that of the share valuation, which directly affect the asset position at the former date or which directly affect the 'maintainable' element of the results based on past trading. Such events, for example, as realization of fixed assets, or sale of sections of the business, must entail elimination of the past results which were directly attributable to their retention in the business, while the declaration of dividends or distributions not provided for in the last balance sheet will directly reduce the net assets presented at that time.

If, however, the events are connected with anticipated trends, affecting the future and not the past, it is suggested that no adjustments should be made. Such events, for example a change of management or the acquisition of new resources or assets, which cannot affect the past factual results, or a maintainable earnings estimate based on them, should be regarded as affecting only the future, proper weight being given to them in computing the risk element in due course.

Current Maintainable Earnings

Having completed the adjusted earnings summary, it remains to decide on the past results to be adopted as foundation for the estimate of current maintainable earnings at the valuation date. It is usual to take a straight average of the annual results of the period and, for a steadily maintained business, this is a reasonable method. If, however, there have been violent fluctuations in any years it may be fairer to eliminate years which were materially affected by non-recurring factors and are, therefore, not a sound indication of normal earnings. In such cases (whether eliminated or not) a lengthened period for review is necessary, so as to leave a reasonable number of normal years for averaging. Where extreme fluctuations are absent but the trend of profits is, markedly, upwards or downwards, only a weighted average, giving more emphasis to recent than to remote years, can obviate the risk that a straight average will be misleading.

As a guide to the weighting of the average, if sometime has elapsed since the last balance sheet, the trend of current results may be useful if this can be accurately estimated. Private companies do not always keep accurate interim statistical records, but it is usually possible to obtain a reasonably close approximation, which can be of use also in the risk computation.

The average adopted represents the current maintainable earnings, before taxation, of the company in its trading capacity. There must be deducted, as a first charge, the basic profits tax payable on these earnings. If capital having prior rights has been issued a deduction must be made of the gross dividends payable in respect of such capital with the consequential distribution tax arising (subject to a deduction of the gross income from any assets segregated as representing funds not employed in the business, which income can be regarded as available primarily for payment of dividends on prior capital). The resulting figure will represent the net maintainable earnings attributable to the equity shares. This result, capitalized at a rate representing the expected yield, will give a valuation of the total of the net assets (including goodwill and intangibles) employed in the business and applicable to the equity of the business.

Risk

There is no such thing as a riskless investment but, for the determination of the appropriate rate of capitalization for a valuation of company shares, it is generally assumed that the rate of yield to be obtained from gilt-edged stocks, represents the minimum yield sought by an investor who wishes to eliminate the risk element as far as possible and who expects a continuously maintained return. The augmented yield expected from an investment in shares of a public company represents largely the risk attaching to the type of business, and the risk of fluctuation in profits and dividend. In the case of a private company, to these general risks must be added certain special risks which call for a further addition to the yield; upon reasonably accurate estimation of supplementary risks depends the valuation of the shares.

The personal element assumes primary importance, after the general risk elements common to all investments are taken for granted. In private companies the separation of ownership and control is less than

The second and concluding part of a paper presented on October 11th, 1951, at the autumnal meeting of The Institute of Chartered Accountants in England and Wales, held in Torquay. The first part of this paper was published in our last issue.

in public companies but the continued maintenance of efficient control is more difficult to ensure. It follows that the probability of continuity in management assumes great importance as a risk factor.

The asset position is important in this connexion not only as determining the available cover, but also when there is a material difference between capitalization (which will include the goodwill element) based on a suitable yield and that based only on the amount of net tangible assets. The greater the difference the more necessity exists for the yield to be maintained at a level high enough to enable the investor to write off, in a reasonable time, the goodwill element latent in the purchase price in addition to compensating him for the other risks of any particular case.

The factors which must be considered in measuring the risk elements of private companies' shares may be divided into those generally applicable to all investments in limited companies, and those which specially affect private companies. The general factors may be summarized:

(*a*) Type of business carried on, and its place in the range between necessities and luxuries.

(*b*) Locality and security of tenure of premises.

(*c*) Length of time established.

(*d*) Competition, actual and potential, and spread of customers.

(*e*) Capital structure with special attention to priority classes of shares and to long-term liabilities, and the terms under which these have been issued or borrowed.

(*f*) Management, particularly with regard to the prospects of continuity of management, and whether one or several persons actively manage the business.

(*g*) The nature and value of the tangible asset backing and whether the assets are likely to be difficult of realization, are specially subject to obsolescence or are mainly of value only in the particular business involved.

(*h*) Extent of the cover given by earnings in relation to dividends on shares to be purchased.

(*i*) The steady maintenance, or otherwise, of available profits over the period and the trend of these profits at the date of valuation, the absence of material fluctuations in annual profits being a major factor.

(*k*) Repayment obligations, if any, in respect of prior capital and loans.

In addition to these general items the most important additional elements of risk attaching to private companies' shares deal with:

(*l*) Marketability of the shares, as affected by special restrictions on transfer, usually specified in the articles.

(*m*) The powers of directors under the articles, especially where there is control by one individual only.

(*n*) The value of the personal contacts of the management, if these are a material element in the business.

Detailed consideration of these points is not possible, nor would it necessarily be useful, owing to the numerous variations in each individual case.

Having considered the risk elements, taking care not to give attention only to factors which increase the risk to the neglect of those which diminish it, it is necessary to determine the rate of return, on the amount invested, which would satisfy a willing purchaser. For private companies the rate of return must allow for three elements:

(*a*) The minimum 'risk free' rate which may be taken as represented by the return from gilt-edged stocks at the time.

(*b*) An increased return, applicable to shares of various classes in public companies, representing the risk compensations for such shares; the market quotations give a return compounded of these two elements which may be used for comparison and as a standard for our purpose.

(*c*) A further increased return to compensate for special risks inherent in a private company's shares, as compared with quoted shares.

It is, unfortunately, not possible to express, in numerical form, the amount of supplementary return which should be added to the chosen standard to compensate for the appropriate risks in any company whose shares are being valued. In the case of public companies the differences between the gilt-edged minimum rate and the market return vary widely even among companies in the same class, and even with apparently similar records. This wide margin is wider still in the case of private companies, aggravated by the small number of share transactions and the still smaller number of arms-length transfers.

The valuer must exercise his judgment and be prepared to justify it from his experience, after giving due weight to all the evidence available, but it might be suggested that an increased earnings yield of 5 per cent would be the least expected from the equity shares of a good private company as compared with shares of a similar class in a public company.

The proposal to control dividends has introduced a new element the extent of which is not calculable in the absence of the necessary legislation. There is no doubt that some effect on equity shares' valuation will result even although the earnings are not detrimentally affected and the asset position may actually derive benefit from the freeze. The fact that for three years at least the normal trade risks of diminished dividends remain without any possible compensation by increases above the fixed limit must be taken into account, although at the time of writing market prices are moving up towards the pre-freeze level.

It will be apparent, as regards the subject of this paper, that many private companies will escape control of dividends as a consequence of their relevant distribution being below the proposed £10,000 limit.

Methods of Estimating Yield Required

Although, in previous considerations of the principles of valuation involving rates of return, it has not been necessary to draw a distinction between dividend yield and earnings yield, this distinction must now be discussed.

In market price lists of quoted shares the 'yield per cent' given relates to the return on the buyer's price, based on recent dividends and is, therefore, a dividend yield. To compute the corresponding earnings yield is not possible without recourse to the company's record, usually conveniently available in the form of an Exchange Telegraph card.

In the case of private company shares (other than shares relating to prior capital which will be considered later) the earnings yield is more important than the dividend yield, chiefly because the dividend policy of private companies is apt to be almost extravagantly conservative and erratic. When, however, it is found that the continued policy of a private company in regard to management remuneration and dividend distribution has been consistent and sound in relation to the profits earned, a valuation based on dividend yield may be considered as an alternative no less equitable.

In the absence of a sound and consistent policy, it is more equitable to deal with private company shares on an earnings yield basis, for which purpose the standards of comparison, in normal cases, must be discussed.

(*a*) Perhaps the most satisfactory method, which however is not always available, is to take, as the basis of comparison, shares involved in a public issue. If the type of business is reasonably similar, and the market conditions at the date of the issue are not too remote from those of the date of the valuation, the prospectus will disclose sufficient information to determine the expected earnings yield on the issue price and the background history should afford some evidence of the comparative general risk factors. Even if some time has elapsed since a prospectus was issued, this method may be suitable if material changes in share market prices are taken into account.

(*b*) An examination of the market lists will permit the selection of two or three public companies, as nearly as possible similar to the private company for which the share valuation is required. The Exchange Telegraph cards of each company can be scrutinized with a view to selecting the most nearly comparable. Information sufficient for general risk appraisement can be made from the records available on the card and the earnings yield on the market price can be ascertained.

(*c*) Where the valuation concerns a small number of shares an average method may be employed by taking the average equity dividend yields of several quoted shares, reasonably similar in character to those to be valued, and multiplying by a figure which, allowing for normal taxation and reserves, will give a notional earnings yield. For example, with taxation at present rates and a reasonable distribution policy, equity earnings might be as much as three times the amount distributed to equity shareholders. An average dividend yield of 10 per cent might thus represent an earnings yield of 30 per cent for the chosen sample.

It will be agreed that comparison is easier and more realistic with an actual company as standard than with the notional undertaking represented by an average, and this method is only useful as a short cut in cases where the amounts involved are small.

Whichever method is adopted, the percentage earnings yield chosen as standard must be augmented by the percentage judged appropriate to compensate for the risk factors of the private company shares concerned in the valuation, so as to obtain an appropriate earnings yield for such shares.

Capitalization of Yield

Capitalization of the net maintainable earnings in accordance with the earnings yield judged appropriate will produce an amount representing the total value of the net assets, tangible and intangible, employed in the business.

Tangible assets not employed in the business, together with the income derived from this source, will have been previously segregated. Such assets will be valued by market prices if available, or by independent valuation, if unquoted, on the principles indicated above. The total of the values so obtained will be added to the above asset total and, from this aggregate, will be deducted, if necessary, the nominal amount of capital ranking prior to the equity shares. The resulting amount, divided by the number of equity shares, will give the share value required.

If a material time has elapsed since the last balance sheet, an addition will be required, since private company share valuations are usually 'cum div. and rights', of the estimated net dividend or rights accrued on each share on a day-to-day basis. For equity shares the previous distribution, other things being equal, may conveniently serve as standard.

Recapitulation

Before leaving the subject of the valuation of equity shares, it may be useful to recapitulate briefly the steps suggested above to value such shares.

1. Prepare assets statement based on last balance sheet showing
   A. Tangible assets employed in the business:
      (*a*) Net fixed assets;
      (*b*) Net current assets;
   B. Tangible assets not employed in the business;
   C. Intangible assets.
2. Make such adjustments as are necessary by reason of events occurring after balance sheet date.

3. Prepare summary of trading results making such adjustments as may be considered appropriate.
4. Determine current maintainable profits applicable to the equity shares, eliminating results shown for abnormal years.
5. Determine the equity earnings yield of standard comparable company.
6. Estimate supplementary yield required to allow for relevant risk factors, and compute total yield required.
7. Apply this total yield to the current maintainable profits to arrive at the capitalization of trading results.
8. If appropriate add the share value represented by the assets not employed in the business and deduct prior capital issued.
9. Divide the resulting amount by the number of shares issued, adding the accrued dividend on each share.

VALUATION OF PRIOR CAPITAL SHARES

Fully-paid Preference Shares

The discussion up to this point has been directed to the general valuation of private company shares, without special consideration for priority classes of shares, since most difficulties occur in connexion with equity shares. When we turn to the fixed interest bearing or preference shares, the problem is, in several respects, more easily solved.

The record of profits is important mainly for the indication it gives whether and to what extent the yearly earnings have exceeded the amount required to ensure the continuation of the fixed preference dividends. If this essential is present the rate of dividend is the yield to be adopted for the purpose of valuation. An examination of prices of similar shares in public companies and the dividend yield derived from them will be made and the risk elements will determine the additional yield required for any particular private company.

While the general risk elements and the special private company risk elements such as difficulty in marketability remain, even for preference shares, for practical purposes the main considerations are the extent of the asset cover, and the security afforded by the total earnings of the company.

Should the profits summary result in estimated maintainable profits less than necessary to meet the fixed preference dividends, the valuation of preference shares will be on the methods suggested for equity shares since the preference shareholders will have a direct claim to the whole of the trading profits.

Participating rights may cause difficulty unless the shares are already participating to the full extent and the continuation seems reasonably secured. When participation has been achieved only to a partial extent the most prudent course is to have regard only to the rate of dividends already paid and to ignore future possibilities, but in exceptional cases some enhancement of value due to future prospects may have to be recognized.

In determining the risks attaching to preference shares, assuming that the background of the company is satisfactory, the chief attention should be given to the net tangible asset backing. Preference shareholders demand greater asset security than equity shareholders and it may be taken as a working rule that a preference share issue should be covered at least twice before it can qualify as a normal risk in that class of investment. Additional cover over and above that point need not greatly affect this element of risk but reductions below that level will increasingly justify higher yields.

Similarly in relation to maintainable profits the amount should be several times that required to cover the fixed preference dividend, a less adequate cover will indicate the necessity for a higher yield.

As in the case of equity shares selection of a suitable standard of comparison from quoted shares of a similar type will be made. If the dividend yield of the selected standard shares is, for example, 5 per cent, and 2 per cent is judged adequate reward for the additional risks of the shares to be valued, a dividend yield of 7 per cent will be required to justify a par value for these shares. An 8 per cent £1 preference share would be valued at 22*s* 10*d* and a 6 per cent share at 17*s* 2*d*, to each of which would be added the net dividend accrued on the share.

An adequate supplementary yield is no easier to express in general terms for preference than for equity shares. In special cases an additional 1½ per cent might be judged sufficient but, normally, 2 per cent would, perhaps, be regarded as the minimum additional yield expected.

A difficulty in valuation may be met with when the preference shares in a private company bear a high rate of interest. If the company is well established, with a low risk factor, a valuation on a yield basis may give the preference shares a value considerably above par. In most cases the preference shareholders have no right to participate in assets available for distribution beyond the amount paid up on their shares. Voluntary liquidation is not so remote in the case of private companies as it is, normally, for public companies, and this fact must be borne in mind when the yield basis value exceeds an arbitrary amount.

For example, preference shares may participate in profits to the extent of 10 or 12 per cent, which, on a dividend yield basis, might justify a valuation of 30*s* or more. If, however, on a reconstruction or liquidation, the shareholders were entitled only to the par value of the share, a valuer must feel that some reduction in the yield valuation is called for. Opinions will differ on the reasonable limit in such cases but it may be suggested that, even if the chance of liquidation is remote, only very exceptional circumstances would support a value exceeding 25*s*.

In addition to the above considerations the valuer must have in mind any special rights which would pass with the preference shares, for example, rights to subscribe for other shares on favourable terms or to share in bonuses. Such rights are difficult to evaluate

but they justify an additional value being placed on such shares as compared with otherwise similar shares without these rights.

Redeemable Preference Shares

The importance of a revision to and the extent of the consequent adjustment of a redeemable preference share valuation will be in direct proportion to the nearness of the date of the obligation, or of the option, to redeem such shares, either at par or for some other specific amount.

It is a matter of opinion when the influence of a fixed redemption date should begin to affect a share valuation. In the case of a prosperous company the redemption will be reasonably certain and a valuation occurring five years or less before the due date should take into account the redemption as affecting the risk element, giving due weight to the relative nearness of the due date in estimating the supplementary yield expected.

This risk element may be regarded as reduced, or increased, as the date of redemption approaches according to whether the amount payable on redemption is greater, or less, than the share value indicated for a non-redeemable share.

For example, if the shares valued above at *22s 10d* and *17s 2d* were redeemable at par in three years' time the expected yields might be adjusted to $7\frac{1}{2}$ and $6\frac{1}{2}$ per cent, respectively, justifying values of *21s 4d* and *18s 6d*, the net accrued dividend being added as before.

Any premium payable on redemption may be regarded as accruing over the five years before the due date, the accrued amount being added to the normal valuation.

If the circumstances of the company are such that redemption at the due date is likely to be difficult, it is prudent to ignore the redemption element until that date is sufficiently near for a realistic estimate of the probabilities to be made.

An alternative method, if redemption is reasonably certain, is to calculate, from compound interest tables, the present value of the amounts of capital and interest which the shares will produce to the owner during the remaining period.

For example, 8 per cent preference shares of £1 each redeemable at *21s* in five years' time, assuming an expected rate of interest of 7 per cent, and calculating, for convenience, on a holding of £100:

	£
Present value of £8 per annum for four years (interest 7 per cent) ..	27
,, ,, £113 in five years' time (interest 7 per cent) ..	81
	108
Accrued net interest, say	2
	£110

The value of each share is *22s*.

Where an option to redeem exists there are factors more difficult to compute. Outside influences, such as trends in interest rates, as well as internal conditions in the company itself, will influence the directors in decisions relating to the exercise of the option. The valuation of the shares is, therefore, affected by probabilities the relative importance of which is not always easily resolved. All that the valuer can do is to consider whether the known relevant factors point to an inducement to exercise the option at an early date. If, in his judgment, they do so, he will adjust his value accordingly; it is tempting, but not justified, to consider the length of time the option has remained unexercised, and to give this consideration too much importance. The factor of probability does not greatly affect the case of shares which, on any selected basis, are valued at an amount materially below par. There is little likelihood of the option being exercised, for obvious reasons, even if the company, in such cases, were in a position to finance the transaction.

OTHER METHODS OF VALUATION

General

It has been assumed, up to now, that the valuation concerns shares to which the normal principles apply, or nearly so, and that there is no dispute between the parties about the reality of the historical background of profits or the condition and earning capacity of the assets. Where there is a material difference of opinion, however, it may be necessary for a valuer to conduct the case with the methods associated with an arbitration. In such cases the valuer is more likely to be an independent accountant valuing as an expert, not as an arbitrator, who must begin his task with a minimum of knowledge of the facts relating to the past history of the company; he is also likely to be ignorant of the personalities concerned, an aspect which might be thought to be outside the problem, but is actually of the greatest importance.

The more difficult of such cases occur in the circumstances referred to in (7) of the list on page 356[1] and the preliminary steps are the same as for a valuation on the usual lines. The valuer, however, having prepared a statement of profits and assets from the audited accounts submitted, should ask the parties to submit in writing their respective views on disputed matters. It may be here emphasized that if, as may happen, the most recent accounts are themselves in dispute and therefore not certified, they should be ignored at this stage. It may be necessary to discuss the submissions in separate conferences with the parties until the issues are sufficiently clear-cut to determine the next steps.

When the differences relate to matters within the province of the valuers' experience as an accountant, he will be able himself to determine what adjustments may be called for in the records and he may then be able, by applying the general principles, to proceed to a fair valuation. It is possible, however, that the matters in dispute involve technical problems which he is unable to solve, on which he should seek expert opinion, professional for preference.

[1] See Part I of this paper published last week.

The expert must be an independent person, the choice of whom should be approved by the interested parties, indeed it is important that the valuer should keep them fully informed of any steps he proposes to take; for example, a personal inspection of assets, or discussions with the auditors.

It may well happen that, after taking all practical steps, the valuer finds that a fair adjustment of the profits is not possible and he will be obliged to ignore the past results and to concentrate on the intrinsic asset value of the business. The submission made to him will have revealed any material differences of opinion on tangible assets; these differences he will resolve by obtaining an independent valuation of fixed assets, and, by his own judgment in regard to the current assets and liabilities, with special attention to the valuation methods applied to stock-in-trade and work in progress should these items be challenged by either party.

Goodwill, if any, surplus to that which may be inherent in the fixed asset valuations on a going concern basis, in this case becomes an arbitrary item usually disposed of by a compromise rather than valuation. Owing to this uncertainty about goodwill, any valuation by this method is not likely to be completely satisfactory to the valuer but if both parties are also less than satisfied he may feel that, if complete justice has not been possible, a reasonably fair result has been obtained.

The intrinsic value of assets method is also applicable in the case of a company which has been established for too short a time to arrive at an estimate of the probable maintainable profits. It is indicated, also, in cases when a company has altered its methods or markets materially and the consequent trading effects have not had time to establish themselves sufficiently to form a secure basis for a similar estimate.

Similarly, for companies in a complete or partial state of suspended animation, the only practicable basis of share valuation will be the intrinsic worth of the assets. If the suspension arises from reorganization, to be followed by renewed activities, a going concern basis of valuation will be appropriate, but where ultimate liquidation seems inevitable, break-up values for the assets may have to be substituted, and the valuation based on the lines of a statement of affairs.

Companies Recently Formed

The valuation of shares in new businesses, formed within five or less years before the date of valuation, must be treated as a special case in that the available data for determining maintainable profits may be insufficient in themselves. In some cases it may be possible to make cautious estimates of future results after consideration of the scope for increased production, diminished costs, and probable markets. Such valuations must always be arbitrary and contentious, and the intrinsic value of the assets must be the most important factor until it is judged that the company is sufficiently established to apply the method of capitalization of profits with advantage.

Partly-paid Shares

Valuations, on whatever basis, of partly-paid shares are subject to revision to allow for the circumstances on which further calls may arise. The revision must depend on an estimate, or perhaps judgment is a better word, of the most likely trend of events from the company's known position at the time of valuation. A well established company with a prosperous record may make further calls with a view to expansion and with a great degree of certainty of increased prosperity as a result. In such a case, against the contingent liability on the shares, there may reasonably be set off the consequential benefits which will ensue, or, at most, the adjustment of the valuation need be a nominal one only. More difficult, however, is the case of a company whose financial position seems to be deteriorating at the time of the share valuation. The contingency for unpaid calls may be not only imminent but there is a greatly diminished chance of benefit accruing to the shareholder. An estimated proportion of the share valuation must be eliminated to meet this contingent loss and the only principle which can be given for making the estimate is for the accountant in such circumstances to be pessimistic. Instances have been known in the stock markets of 'minus' prices being quoted in such circumstances, but, for private companies, instances requiring quite such drastic action are of rare occurrence.

Recent Transfers

In the event of an arms-length transfer of shares of the class to be valued having recently occurred prior to the date of valuation, the share value represented by the consideration paid must not be overlooked. The valuer's estimate may require revision if there has been no material alteration in the trends of the business or outside influences. In all cases, if the transfer records a bona fide sale, it will probably be a better indication of 'market value' than any valuation based on empirical principles.

TRANSPORT ACT, 1947

Before concluding, although it is not strictly relevant to the theme of this paper, some comment on the methods of assessing compensation under the Transport Act, 1947, may be of interest. In the early stages after the passing of the Act, the British Transport Commission was empowered to purchase shares in haulage companies at a valuation to be agreed between the parties; although, under the present compulsory procedure, the Commission acquires the assets of the undertaking and pays compensation for the cessation of the business, the ultimate result is equivalent to a share valuation of the haulage undertaking concerned, if carried on by a private company.

It is not necessary to deal with the general methods laid down in the Act for arriving at the valuation of the assets used in the business, as such valuations are carried out by the expert staff of the Road Haulage Executive. Mention may be made, however, of the

special procedure to be used in the valuation of goods vehicles, which is done in two stages:

(1) The present-day replacement cost of the vehicle is ascertained from the manufacturers.

(2) (*a*) For each completed year of the vehicle's life, depreciation of 20 per cent (on the reducing value) is deducted, the consequent balance being adopted as the value of the asset at the transfer date, subject to;

(*b*) An amount fixed by the expert valuer, which is added or deducted, according to the physical condition of the vehicle.

Reference is made to this matter later in connexion with the adjustment of profits.

For the determination of the method of computing the appropriate amount of compensation for the cessation of the business, an amount closely analogous to the value of the goodwill of an undertaking, the Act states:

> 'The Commission will pay such sum as may be just, being a sum calculated by reference to the average net annual profit as defined in the Ninth Schedule of this Act, and not being less than twice nor more than five times the said average net annual profit.
>
> 'In considering the proportion which the amount of the compensation is to bear to the average net annual profits as so defined, regard shall be had to the likelihood or otherwise that profits at the rate represented by the average net annual profit might, but for the operation of this Act, have been made after the date of transfer by carrying on the undertaking.'

The compensation, it will be noted, may be based on a number between two and five times the average net annual profits. It is a matter of considerable difficulty to fix this number for any individual case, as the only guidance given by the Act is that it is to be determined in proportion to the probability that the average annual profit would have been maintained in the future, but for the passing of this Act.

An example of the method of assessing the compensation was given by the Transport Arbitration Tribunal in the case of *Arthur J. Maggs Ltd v. Road Haulage Executive*. In the course of their judgment, the Tribunal outlined the above-quoted provisions in the Act, and stated that, in this case they proposed to apply only the test of 'maintainability of profits'. They also stated that a number of considerations had been put before them, all of which they considered relevant to the inquiry. These included the length of time the business had been established, the trend of profits in the three basic years, the spread of customers, the number of regular contract customers, the situation of the operating centre, the value of the owner's personal contacts, the probability of his continuing to serve the company, and other matters. After giving such weight as they thought proper to all these factors, they came to the conclusion that the number of years' purchase might fairly be put halfway up the scale. They made an award computed on the basis of three and a half years' profits as being the sum that, in the circumstances, appeared to them to be just.

As regards the method of computing the average net annual profit, the Act requires that there shall be ascertained the profit or loss which was made in each of the last three financial years prior to the date of acquisition. For computing the profit or loss made, the Act gives no ruling apart from stating that there shall be deducted from profits such a sum as may be just in respect of wear and tear and provision for replacement of assets used in the business; the method of valuing the goods vehicles already mentioned would appear to indicate a method of computing the sum to be deducted from profits for wear and tear and provision for replacement.

Whether this or some other method is used it is implied that the charge against profits in respect of this item should be based on the present-day replacement cost. This constitutes a departure from normal accounting practice which will be of interest to those who argue that it is only by providing depreciation on present replacement costs of assets that true profits can be computed and the capital in a business preserved intact. It is logical from the Commission's point of view as, in future, even under the existing methods, depreciation has to be provided on the purchase price paid.

On the whole, the Act appears to expect that, in computing profits, an accountant should follow the principles regarding adjustments for exceptional items which he would normally make in preparing a certificate for publication in a prospectus or offer for sale.

The question as to whether or not excess profits tax and profits tax should be deducted in arriving at the annual profit, was also dealt with by the Arbitration Tribunal in the case quoted above. They decided that no such deduction should be made.

In the judgment it was stated that no context could be found that would lead to the conclusion that 'net profits' in either Section 47 (3) of the Act, or the Ninth Schedule, meant 'divisible profits'. There has to be ascertained, not the profit or loss made by the transferor in carrying on the undertaking, but the profit or loss made in the carrying on of the undertaking, regardless of the personality or identity of the person or body corporate carrying it on.

The Ninth Schedule requires that an amount equivalent to one year's interest at a rate to be determined by the Treasury, at present 3 per cent, on the value of the tangible assets transferred to the Commission, shall be deducted from the average annual profits. This rate would appear to represent the Treasury's estimate in 1947 of the yield obtainable from an investment carrying the minimum risk.

The Tribunal's ruling on profits tax referred to, with some other rules contained in the Ninth Schedule, are applicable only to the requirements of the Transport Act, and need not obscure the methods of valuation suggested elsewhere in this paper. Some

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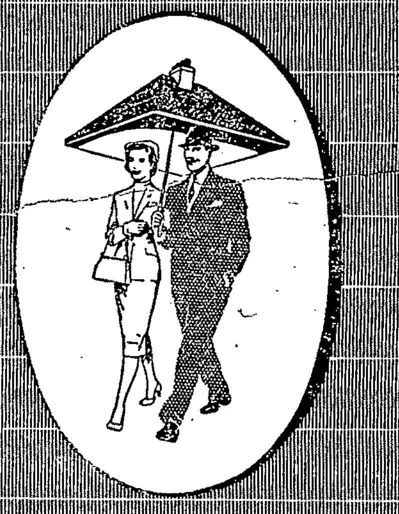

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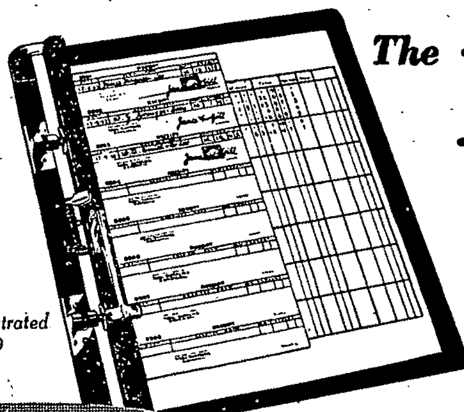

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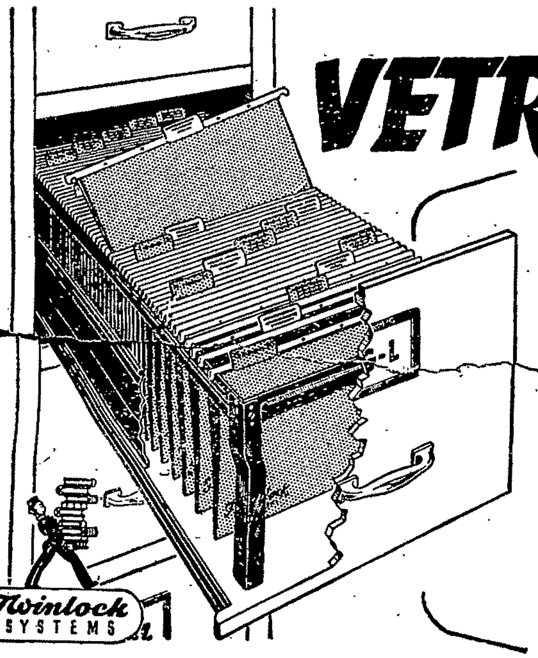

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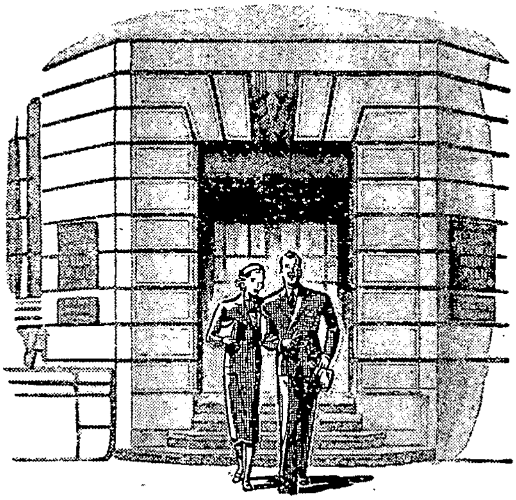

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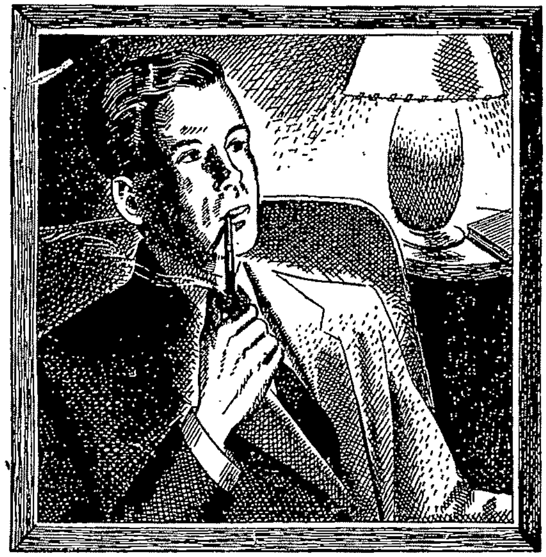

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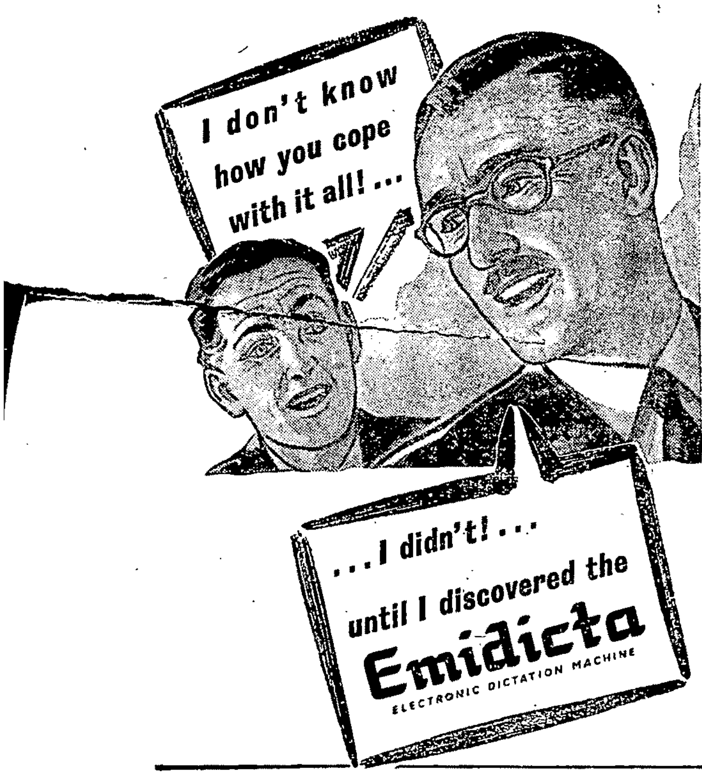

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comments on the Act seemed called for, taking that Act as an example of one method of approach by the State towards determination of a fair value for shares in continuing businesses.

An accountant, presented with a difficult valuation of shares in a private company, need not envy the facilities which a statute may bestow by fixing rules for his application. He will be well aware that rules, inflexibly applied, do not necessarily ensure that justice is done. From a variety of valuation methods (it would be a mistake to regard them as principles), he may choose one as a means suitable to deal with widely variable circumstances; the resultant valuation may be questioned, but the fairness of his methods should always be unchallengable.

Bibliography

The following list, by no means exhaustive, is of reference works by chartered accountants in this country and overseas, relevant to the valuation of shares and goodwill:

The Accountants' Research Committee, Johannesburg: 'The Valuation of Goodwill and Shares and Debentures'. 1947. (This memorandum contains a large number of practical examples of valuations in differing circumstances.)

H. E. A. Addy: 'Share Valuations'. An address to the Dublin Society of Chartered Accountants. 1950.

A. V. Adamson: *The Valuation of Company Shares and Businesses*. Law Book Co of Australasia Pty Ltd. 1948.

A. E. Cutforth: *Methods of Amalgamation and the Valuation of Businesses*. 1926.

Thos. Greenwood: Article in *The Accountant*, June 17th, 1933.

P. D. Leake: *Commercial Goodwill*. 1930.

H. E. Seed: *Goodwill as a Business Asset*. 1937.

(*Concluded.*)

Mr Campbell's paper was intended to be read in conjunction with that of Mr T. A. Hamilton Baynes, M.A., F.C.A., on 'The valuation of holdings in private limited companies for probate purposes' which will be reproduced in these columns next week. The remarks of the two opening speakers in the discussion following those addresses will appear at the conclusion of the second paper.

WEEKLY NOTES

Better Railway Takings

In the four weeks ended with October 7th there was a noticeable improvement in the takings of British Railways and a slight improvement in the recruitment of those grades of railway labour which are particularly scarce. The latter improvement can be measured only in hundreds, but even a small accrual is worth recording.

On the traffic side there was an increase in both passenger and goods takings. Following a rise in the previous period of some 4·9 per cent, the advance recorded in the latest four-week period on the corresponding period a year ago was 5·5 per cent. This is thought to be due in part to higher takings from Festival of Britain celebrations, and to an increase in reservist personnel travelling at the Government's expense.

An increase of 11 per cent on the year was recorded by goods traffic, compared with an increase of 10 per cent in the level of freight rates as between the two periods. Coal and coke movements made a notable contribution to the increase.

Freight Rates Recover

A resumption of grain trade chartering by this country caused a notable hardening of freight rates in September. The Chamber of Shipping index rose over the month from 149·3 to 166·5. A seasonal advance at this time of the year is to be expected, but this upswing was much larger than usual.

Part of the explanation may lie in the very large movements in the index which have been a feature in recent months. In May, the Chamber's index reached a peak level of 203·8 and then fell back sharply to 179·0. In August, the index slipped further to 149·3. The September movement may therefore be something of an upward adjustment to the higher plateau of charter rates which now seems to be establishing itself.

At present levels rates are nearly twice the level they were at this time last year. In spite, therefore, of the somewhat disconcerting swings to which the market seems prone at the moment, it is a reasonable assumption that ships are earning satisfactory incomes at present. To corroborate the generally healthy state of the shipping industry, it may be pointed out that the other and 'unstatistical' index of cargo shipping activity, namely the amount of tonnage laid up on the Clyde, is at present at zero.

Complexity in Wool

The announcement at the end of last week that this country is going to build up a reserve of 40 million pounds of raw wool, adds one more factor in the increasingly complex situation in the wool market. Prices have been exceedingly sensitive for some time. The recent and much publicized fall in the price of merinos and crossbreds, sliced off about two-thirds of the prices which had been achieved at the March peak. Towards the end of September a rally developed and prices rose strongly for a week or two, but these increases were not sufficiently large to make good the previous heavy declines.

Basically, the world market for wool is thought to be about in equilibrium – that is, prospective demand about equals supply. But this underlying fact has not prevented spasms of nervousness affecting prices, and any optimism there may be when

prices take a sudden change for the better, is apt to be offset by the difficulty of estimating whether the public will come forward and buy wool textiles or whether it will wait yet longer in anticipation of further price delines in finished textiles. In such circumstances, the official demand for 40 million pounds to be spread over the buying season is having more influence than would normally be the case on wool prices.

Britain's Deficit with E.P.U.

For some time now it has been expected that this country would have a deficit for September with the European Payments Union. The results to August effectively wiped out the large credit balance built up in the earlier months of the year, and the seasonal factors which had helped to bring this state of affairs about as summer passed were still in operation during September.

The net deficit for the month was just over £73 million, that is, about 205 million units of account – each unit being equal to one dollar. There was still a cumulative surplus of £23 million left in favour of Britain in E.P.U.'s accounts at the beginning of the month, so the cumulative deficit by the end of the month was about £50 million.

The Motor Show

The annual International Motor Show opened last week. The fact that fewer new models are on show has slightly reduced attendances up to the time of going to press (or has this been caused by the refusal of the British public to be tantalized further by the sight of goods it cannot buy?). Nevertheless, the industry has put on a brave show at a time when some valuable export markets are easing off and the prospect for steel supplies is not bright.

REVIEWS

The New Society
by Peter F. Drucker

(Wm. Heinemann Ltd, London. 15*s* net)

In the last forty years, efficient methods of mass-production have revolutionized the social and economic structure of the whole world. Mr Drucker wisely realizes that we have no option but to accept this phenomenon, and the problem he poses is how best to harness our new-found source of material power for the good of society without its members losing these few remaining individual qualities which distinguish mankind from machinery.

His own solution is an autonomous free-enterprise industrial society in which both the rights and responsibilities of its citizens would be clearly defined and rigorously observed. Government would be as decentralized as possible and would be entrusted to managers, able and ready to serve but not, like Plato's Guardians, immune from worldly reward.

Mr Drucker emphasizes that he envisages not a Utopian society but 'a livable society for our time' and suggests that the present way of living in America, judging by actual institutions and practices, is very close to it. He sturdily defends this material outlook by quoting the dictum that before men can be Christians they have to become citizens.

Group Accounts and Holding Companies
by Angus MacBeath, C.A., A.C.W.A., and A. J. Platt, A.C.A.

(Gee & Co (Publishers) Ltd, London. 17*s* 6*d* net 18*s* post free)

The first part of this entirely new work summarizes the reasons why holding companies, since the advent of the Companies Act, 1948, must produce group accounts, discusses the alternative types of accounts which may be adopted, and defines the legal requirements. The second part deals with points of principle and procedure likely to arise in the preparation of the accounts, and the third works out in complete detail the consolidated accounts of a group of companies with as complicated a set of inter-company relationships as is likely to be encountered in ordinary practice.

The theoretical and the practical are skilfully dovetailed and the book may either be read right through as an exercise in logic or kept for consultation as a work of reference. Probably it would be better to do both, studying first the precepts, then the example, so admirably demonstrated, and returning as the occasion demands for the abundant practical guidance it offers.

Practical Book-keeping and Accounts (Advanced Stage)
by E. F. Castle, B.Com., A.S.A.A.

(University Tutorial Press Ltd, London. 10*s* net)

The author embarked on this new work because, in his opinion, many of the existing books on advanced book-keeping and accounts tend to be too comprehensive and encyclopaedic and are not suitable for study by the average student. The standard at which he has aimed is that of the Intermediate and Final examinations of the Chartered Institute of Secretaries and this he seems to maintain comfortably yet without *longueurs* or irrelevance. Numerous questions taken from previous examination papers are appended at the end of each chapter.

Accounts Consolidated in Five Stages
by Ancrum Evans, T.D., A.C.A.

(Celoplan Publications, London. 15*s* 6*d* net)

One of the chief difficulties of the accountancy student is how to apply to practical problems the principles he assimilates from his reading. In no

branch of higher book-keeping is this more marked than in the preparation of consolidated accounts. Even experienced accountants, accustomed to producing individual sets of accounts with, so to speak, a flick of the wrist, sometimes falter when confronted with the task of welding them into one group account.

It is with a view to giving the student a clearer perspective of the operation that Mr Evans has produced this novel folio. He first outlines his method and then demonstrates with diagrams and explanatory text each of his five stages. The examples he has chosen are intentionally elementary but his exposition gains thereby in lucidity, and students blessed with moderate powers of concentration should have no difficulty in obtaining a clear mental picture of the whole process of consolidation within the limits of the given examples.

A Course in Applied Economics by E. H. Phelps Brown, M.B.E., M.A.

(Sir Isaac Pitman & Sons Ltd, London. 25*s* net)

It is gratifying to find a textbook which analyses some of the specific problems of the day; problems which are in many ways more complex than those of pre-war, in the light of economic principles. The problems studied include those of prices under monopoly conditions, interest rates, equal pay, economic stabilization, devaluation and price policy in the public corporations, the latter being perhaps the most interesting one of all.

Accountants, it will be remembered, are concerned with the individual business unit. They tend to forget that economists are concerned with the unit viewed merely as a part of a total economic complex. This book narrows the gap between the two viewpoints and accountants should be grateful to Professor Phelps Brown for his work, particularly as he has succeeded in avoiding taking sides in many controversial issues.

Handbook on Accounting, Statistics and Business Office Procedures for Hospitals: Section I – Uniform Hospital Statistics and Classification of Accounts

(American Hospital Association, Chicago.)

The need for control of hospital expenditure has been emphasized in the U.S.A. by the preponderance of private or semi-private patients and the need for an accurate basis for fixing hospital charges. This has led to a general realization of the need for a functional analysis of expenditure. The main object of this book is to offer, by a series of definitions, a basis for general use which should ensure greater uniformity in the preparation of hospital accounts and unit costs.

It is possible that Part I will be of greatest interest in this country, as it contains a clear definition of in- and out-patient statistics, and of those units of service which are considered necessary for the production of unit costs for all the main departments of a hospital. In Part II a code to cover all hospital income and expenditure is set out, which provides, first, a classification between capital funds and general funds, then divides the income and expenditure of general funds departmentally, and finally analyses the expenditure of each department between salaries and wages and supplies and expenses. Parts III, IV, and V, give further details of what should be entered in the balance sheet and general fund income and expenses accounts. The latter section, together with lists of hospital equipment which are shown at the end of the book with the estimated life for purposes of depreciation, gives a valuation definition of the basis of departmental expenditure which, if adopted, should provide useful and comparable unit costs.

Specialized Accounting Systems by Henry Heaton Baily, A.M., C.P.A. (Second Edition)

(Chapman & Hall Ltd, London. 48*s* net)

This book mainly describes the specialized forms of accounting for contractors, departmental stores, stock and grain brokerage, water undertakings, air, road and rail transport and various forms of finance, banking and insurance. Under each of these headings a brief note on auditing requirements is also given.

Since the publication is American, in many cases the business conditions with which it is concerned are so different as to limit the value of this book elsewhere. In other cases the form of accounts is statutory, again being inapplicable in this country. Nevertheless, accountants in the types of business covered may derive some benefit from checking British practice with American.

The most valuable part of this book is the long chapter, not contained in the earlier edition, on system construction and installation. Separate sections deal with the procedures for investigating and installing systems, with accounting machines, and with various practical matters such as classification and codification of accounts. For the benefit of students a list of questions is given at the end of each chapter. There is also a full index.

Spicer & Pegler's Income Tax Nineteenth Edition by H. A. R. J. Wilson, F.C.A., F.S.A.A.

(H.F.L. (Publishers) Ltd, London)

The publishers inform us that in their advertisement which appeared on page iv of last week's issue, they gave an incorrect price for this book. The prices are: with supplement, 30*s*, post free United Kingdom 31*s*.

SHORTER NOTICE

THE PROFITS TAX SIMPLIFIED, by Arthur Rez, B.COM.(LOND.), F.R.ECON.S., F.A.C.C.A. (Barkeley Book Co Ltd, Stanmore, Middlesex. 4*s* net, 4*s* 4*d* post free.) This extremely complicated tax is here summarized in thirty-four pages, which is hardly enough to give the bare essentials. Inevitably many questions are left unanswered.

FINANCE AND COMMERCE

Stock markets during election week remained firm. Business was mainly professional in character and rather wide fluctuations in prices at times indicated the difficult technical position in the market.

British Celanese

This week's reprint gives the accounts to June 30th, 1951, of British Celanese Ltd whose trade mark 'Celanese' needs no introduction. The title page adds, however, that the business now includes plastics and chemicals. One change worth noting is seen in the balance sheet. 'Plant replacement and special obsolescence, £600,000' which appeared last year under the head of 'Other reserves' has now been altered to 'Reserve towards increased cost of replacement of property and plant' and is now included under the heading of 'Capital reserves'. With £1 million transferred from the profit and loss account this year, the new reserve stands at £1,600,000.

The notes on the accounts have not been included in the reprint, but it is emphasized that they form an integral part of the accounts. This latter statement is particularly important because it is only in these notes that disclosure is made of the remuneration of the directors.

Emoluments as directors, pursuant to the articles, have been voluntarily restricted to £18,000 (last year £20,000). In respect of services as executives, including pension contributions, the amount is £62,478 and there is a further £17,309 as pension in respect of services in executive capacity including £13,267 paid in commutation of part pension rights.

New Capital

The company has now reached the point where the introduction of further capital is considered necessary. Net expenditure on fixed assets during the year amounted to £1,230,413 and net current assets show an increase of £1,461,944. The principal feature is an increase of over £2½ million in stocks mainly through higher raw material costs and higher wage rates. Since the end of the war, expenditure on plant expansion, modernization and replacement has amounted to over £5¾ million and after providing for future taxation, working capital has been increased by just over £5 million. Only £1·8 million has been raised in new capital in that time in the form of first preference.

In this connexion, the chairman, Mr G. H. Whigham, points out that, viewing the company as a continuing undertaking, the ordinary stockholders' interest comprises subscribed capital plus reserves, on which basis the 9 per cent dividend represents a return of only 2·6 per cent less tax.

Mr Whigham further points out that with the suspension of initial allowances, the company will be called upon to pay taxation much earlier than was expected when capital projects now in hand, were originally planned. As an illustration, it is estimated that nearly £1 million will now need to be provided from other sources instead of being available, as was originally expected, by way of taxation relief.

Application was made to the Capital Issues Committee last June for permission to raise approximately £3½ million in connexion with the company's Wrexham project by the issue of ordinary shares, to be offered, in the first instance, to ordinary stockholders. The application was successful.

Extraordinary Resolution

Authorized capital is normally regarded as something to be preserved. It is, in effect, the legal right to obtain the use of the share capital carrying limited liability, a right which has cost something to acquire by a payment to the national exchequer. If the capital obtained by the issue of shares is lost, restoration of authorized capital is permitted free of capital duty.

There was therefore something extraordinary in the resolution recently put to a requisitioned extraordinary meeting of shareholders in Western Manufacturing Estates Ltd, to extinguish the unissued portion of the authorized capital.

The company will be remembered under its previous title of Miles Aircraft Ltd, whose ordinary shareholders lost practically their all in a drastic reconstruction. Present owners of the loan and share capital mainly represent the creditors and preference holders in the Aircraft company whose main object, according to the requisitionists, is to see their money back as soon as possible. No ordinary dividend is payable until loan and preference capital has been redeemed.

A question of policy – and principle – has now arisen. A majority of the board is in favour of issuing further capital to acquire other business. A dissenting director feels that the board should concentrate on what the company already has; or, at least, that shareholders should be consulted before any new venture is undertaken.

And the simplest way to that end, he considers, is to cancel the authorized unissued capital by ordinary resolution, leaving the directors in the position of having to ask for creation of authorized capital if they persist in their policy. The reconstruction left the company with £1 million authorized and only £207,450 issued capital.

At the extraordinary meeting the requisitionists' resolution was defeated.

Money Market

With applications some £26 million lower at £339,885,000 the market's allotment of Treasury Bills was 64 per cent of requirements on October 19th against 58 per cent previously. The average rate was 10*s* 2·57*d* per cent and this week's offer is reduced to £230 million. There is no Treasury deposit receipt call.

BRITISH CELANESE LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account for the Year ended June 30th, 1951

1950 £	1950 £		£	£	£
	5,126,060	Balance of Consolidated Trading Account ..			8,015,826
		Add:			
		Dividends (gross) from			
2,300		Trade Investments	1,600		
64,521		Associated Companies	86,111		
66,821				87,711	
17,863		Interest on Tax Reserve Certificates tendered against tax liabilities ..		14,958	
16,472	101,156	Bank Interest		20,450	123,119
	5,227,216				8,138,945
		Add:			
		Depreciation (see Note 5 on page 12*):			
635,237		Normal	713,788		
350,000	985,237	Additional	—	713,788	
1,721		Provision for Premium on Redemption of 4 per cent First Mortgage Debenture Stock	1,807		
		Interest (gross) on Debenture Stocks and Mortgage:			
134,338		British Celanese Ltd..	129,976		
		Interest (gross) on 5 per cent Debenture Stock:			
3,488	139,547	Subsidiary Company..	1,796	133,579	
	1,124,784				847,367
	4,102,432	Net Profit for the year before Taxation ..			7,291,578
		Deduct:			
		Taxation thereon:			
627,835		Profits Tax	959,583		
1,627,199		United Kingdom Income Tax ..	2,892,311		
2,255,034				3,851,894	
284,804	2,539,838	Transfer to Taxation Equalization Account		285,592	4,137,486
	1,562,594	Net Profit for the year after Taxation ..			3,154,092
		Deduct:			
	546	Balance retained in the Accounts of Subsidiary Companies			40,446
	£1,562,048	Net Profit for the year dealt with in the Accounts of British Celanese Ltd, carried forward to next column			£3,113,646

1950 £	1950 £		£	£
		BRITISH CELANESE LTD		
	1,562,048	Net Profit for the year brought forward from previous column		3,113,646
564,771		Balance brought forward at July 1st, 1950	574,188	
		Add:		
500,000		*Adjustment relating to previous years .. Nil (Taxation provisions released on the settlement of sundry claims including those for exceptional Depreciation resulting from the war)*		
		Less:		
500,000		*Transferred to accumulated Depreciation .. Nil*		
—	564,771		—	574,188
	2,126,819			3,687,834
		Deduct:		
134,750		Dividends (*less* Income Tax) paid on £3,500,000 7 per cent Cumulative First Preference Stock in respect of the year ended April 30th, 1951 ..	134,750	
37,066		Interest (*less* Income Tax) paid on 5 per cent Funding Certificates during the year	32,333	
175,312		Fixed Dividends (*less* Income Tax) paid on £4,250,000 7½ per cent Participating Second Cumulative Preference Stock in respect of the year ended April 30th, 1951	175,312	
243,338		Amount to be applied in the purchase or redemption of Funding Certificates	556,671	
—		Interim Participation Dividend (*less* Income Tax) payable on £4,250,000 7½ per cent Participating Second Cumulative Preference Stock in respect of the year ended April 30th, 1951	23,218	
—		Interim Dividend (*less* Income Tax) payable on £2,211,333 10s Ordinary Stock in respect of the year ended June 30th, 1951	69,657	
		Dividends Recommended:		
40,542		Final Participation Dividend (*less* Income Tax) on £4,250,000 7½ per cent Participating Second Cumulative Preference Stock in respect of the year ended April 30th, 1951	11,609	
121,623	752,631	Final Dividend (*less* Income Tax) on £2,211,333 10s Ordinary Stock in respect of the year ended June 30th, 1951	34,829	1,038,379
	1,374,188			2,649,455
		Deduct:		
		Transfer to		
200,000		Reserve towards increased cost of replacement of Property and Plant	1,000,000	
600,000	800,000	General Reserve	1,000,000	2,000,000
	574,188	Balance carried forward at June 30th, 1951		649,455
		SUBSIDIARY COMPANIES		
6,353		Balance brought forward at July 1st, 1950	6,899	
		Add:		
546		Balance of Net Profit for the year retained in the Accounts of Subsidiary Companies	40,446	
	6,899	Balance carried forward at June 30th, 1951		47,345
	£581,087	Balance carried forward at June 30th, 1951, in Consolidated Balance Sheet		£696,800

BRITISH CELANESE
Balance Sheet

1950 £	Share Capital and Reserves / Capital:	Authorized	Issued and converted into Stock	£	£
3,500,000	7 per cent Cumulative First Preference	(£1 Shares) £3,500,000	(£1 Units) £3,500,000		
4,250,000	7½ per cent Participating Second Cumulative Preference	(£1 Shares) 4,250,000	(£1 Units) 4,250,000		
2,211,333/10s	Ordinary	(10s Shares) 2,700,000	(10s Units) 2,211,333/10s		
9,961,333/10s		£10,450,000		9,961,333/10s	
	Capital Reserves:				
97,112	General (see Note 1 on page 12*)		145,539		
277,768	Excess Profits Tax Post-war Refund		277,768		
600,000	Towards increased cost of replacement of Property and Plant		1,600,000		
974,880				2,023,307	
	Other Reserves:				
1,600,000	General		2,600,000		
574,188	Profit and Loss Account		649,455		
2,174,188				3,249,455	
13,110,401/10s					15,234,095/10s
(1,145,774)	**Funding Certificates** carrying interest at 5 per cent per annum issued pursuant to Resolutions passed in General Meetings held on December 8th, 1942, redeemable out of profits – Nominal amount outstanding			914,006	
	Future Taxation				
1,521,148	United Kingdom Income Tax, 1952–53, based on profits for the year ended June 30th, 1951			2,663,902	
765,000	Equalization Account (see Note 2 on page 12*)			1,045,000	
2,286,148					3,708,902
	Debentures and Mortgage				
	4 per cent First Mortgage Debenture Stock – Authorized amount, £3,000,000:				
2,572,761	Nominal amount issued		2,572,761		
210,074	*Less* Redeemed to date		308,790		
2,362,687	Outstanding, redeemable not later than December 31st, 1978 at 102½ per cent			2,263,971	
	3½ per cent Second Mortgage Debenture Stock, 1951–80 – Authorized amount, £1,000,000, with power to increase to a total of £1,500,000:				
1,000,000	Nominal amount issued		1,000,000		
45,227	*Less* Redeemed to date		53,727		
954,773	Outstanding, redeemable not later than September 30th, 1980, at par			946,273	
3,317,460				3,210,244	
150,000	Mortgage – Secured on Leasehold Premises, Hanover Square, London, and on Mortgage Redemption Insurance Policy			150,000	
3,467,460					3,360,244
	Current Liabilities and Provisions				
1,126,984/10s	Creditors and Accrued Charges		1,423,769/10s		
200,678	Amounts owing to Subsidiary Companies on Current Account (*less* dividends receivable)		224,319		
2,364	Amounts unclaimed in respect of Dividends, Interest on Funding Certificates and redemption of Funding Certificates		4,380		
8,657	Interest (gross) accrued on Mortgage Debenture Stocks		8,235		
1,338,683/10s				1,660,703/10s	
	Provision for				
1,715,415	Excess Profits Tax and Profits Tax on profits to June 30th, 1951, and Income Tax on profits to July 1st, 1950		2,956,636		
49,407	Deferred Repairs, *less* expected saving of Income Tax when repairs effected ..		10,664		
641,143	Other Liabilities		582,100		
2,405,965				3,549,400	
243,338	Amount to be applied in the purchase or redemption of Funding Certificates ..			556,671	
	Dividends, Participation Second Preference and Ordinary:				
—	Interim, since paid		92,875		
162,165	Final, recommended for payment on November 10th, 1951		46,438		
162,165				139,313	
4,150,151/10s					5,906,087/10s
£23,014,161					£28,209,329

LIMITED
at June 30th, 1951

1950 £		£	£	£
	Fixed Assets			
15,409,223	Land, Buildings, Plant, Machinery and Equipment, at cost (see Note 4 on page 12*)	16,392,685		
7,704,039	Less Accumulated Depreciation to date	8,249,302		
7,705,184			8,143,383	
1,922,418	Goodwill, Patents and Patent Rights, at cost, *less* amount written off		1,922,418	
53,140	Mortgage Redemption Insurance Policy – Premiums paid to date		55,426	
	Investments, at cost:			
22,100	Trade – Unquoted	24,200		
25,549	Associated Companies (Market value at June 30th, 1951, £1,728,229)	25,549	49,749	
	Subsidiary Companies:			
85,000	Shares, at cost, *less* amount written off	485,000		
1,000	Amounts advanced on Loan Account	97,675	582,675	10,753,651
	Current Assets			
	Stocks, at or under cost, as certified by the Company's Officials		5,870,748	
	Debtors and Payments in Advance		1,856,623	
	Amounts owing by Subsidiary Companies on Current Account (including dividends receivable)		370,542	
	Tax Reserve Certificates		5,241,800	
,225	Cash at bank and in hand		4,115,965	
,769,770				17,455,678
£23,014,161				£28,209,329

* *These notes are not reproduced. – Editor.*

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Government Investigations: Accountants' Fees

SIR, – May I, through the medium of your columns, draw attention to a matter which may be of interest to many practising accountants.

For some time now it has been the custom of Government departments exercising jurisdiction over price control, on being asked by trade organizations to adjust controlled prices in the light of changed conditions, to engage accountants to carry out an investigation in order to ascertain what profits have in fact been made by individual members of the trade concerned.

The investigating accountant very naturally seeks the assistance of the trader's accountant in order to obtain his results with the minimum of work and time. Obviously the trader's accountant is normally very happy to be of as much assistance as possible and in addition to placing his existing records at the disposal of the investigator may find himself spending time, amounting in all perhaps to several days, explaining accounting methods and generally assisting the investigation.

As things are at present, the investigator is remunerated by the Government department concerned, on the basis of time spent by his various grades of employees. No provisions exist whereby the trader's accountant can be remunerated for the time he gives to the job. Clearly he cannot charge his client for why should a client pay for such work? He cannot charge the Government department concerned. He cannot charge the investigator, for although the latter will have been saved a considerable amount of time and effort he is only remunerated by the Government department on the basis of the time spent by himself and his staff.

Whilst no accountant would be likely to withhold his assistance on account of there being no fee, it seems grossly unjust that there should be no means whereby he can be paid for his time spent. Were he not to assist, the investigator would draw a substantially higher fee from the Government department and it seems that part at any rate of this saving ought to be paid by the Government department to the accountant who has assisted in making it.

Yours faithfully,
J. ALISTAIR FORDYCE.

London, EC1.

[The Board of Trade states: The investigator would approach the trader's accountant only at the suggestion or with the agreement of the trader and on the basis that the latter instructs his accountant to furnish the required information. The accountant should look for his fee to the person instructing him, namely, the trader. Your correspondent seems to consider that it is unfair to expect the client to pay, but it does not seem unreasonable that, where an inquiry arises in the circumstances which are outlined, the members of the trade concerned should meet some part of the cost of the inquiry.]

French for 'True and Fair View'?

SIR, – I refer to the difficulty raised by Mr Bo
Paterson in your issue of October 13th.

If a French auditor were required by la
that financial statements give a 'true
I suggest he might say that they '
et raisonnablement, la situation
résultats de l'exercice. . . .'

Yours faithfully,
D. K. H. CHRIST

London, W3.

SIR, – Mr Bourne-Paterson's inquiry (October 13th issue) for a French translation of so vague and indefinite an expression as 'true and fair view' is not easy to answer, particularly as the French language is more precise than English.

However, I suggest that the following might be a fair equivalent:

'Un exposé juste et honnête.'

Yours faithfully,
ARTHUR REZ, B.COM.(LOND.), F.A.C.C.A.

London, NW2.

SIR, – In your issue of October 13th, Mr Bourne-Paterson asks for a French translation of the words 'true and fair view' as used in the Companies Act, 1948.

The first thing to do in this case is to translate the phrase into English; the word 'view' here is used in a most unusual sense. Strictly speaking, a view can only exist in the mind of a beholder, and his view changes according to the angle at which he looks at whatever it is he is looking at. The figures in a balance sheet do not constitute a view; they are, however, a statement or presentation, and the equivalent in the French language is *compte rendu.* The word 'fair' is also open to criticism – fair to whom? What the legislator had in mind was 'impartial', and this goes over into French without change.

Translated into English, the phrase 'true and fair view' now becomes 'true and impartial statement', and the rest is easy. *Compte rendu vrai et impartiale* is as near as I can get.

Yours faithfully,
R. A. HADRILL.

London, EC2.

AN ACCOUNTANCY OCCASION IN HOLLAND

Yearday of the Netherlands Institute of Accountants

Accountants from Belgium, Denmark, England, Finland, France, Germany and Sweden were among nearly 450 members of the Netherlands Institute of Accountants whose accountants' yearday, or annual day of conference, was held on October 6th in the Royal Institution for the Tropics in Amsterdam, with Mr van Essen, President of the Institute, in the chair throughout the whole of the proceedings.

Many representatives of the Dutch Government, and university, professional and business life were present, and it is striking to note that as the total membership of the Institute is under 1,000, the attendance of members was not far below 50 per cent.

The English Representatives

As on previous occasions, invitations had been sent to bodies of accountants in several other countries. The Institute of Chartered Accountants in England and Wales was represented by Mr Douglas A. Clarke, LL.B., F.C.A.; the Society of Incorporated Accountants and Auditors by the Vice-President, Mr Bertram Nelson, J.P., F.S.A.A.; and the Association of Certified and Corporate Accountants by the Director and Secretary, Mr J. C. Latham, D.L., F.A.C.C.A., F.S.A.A., F.C.I.S.; and Mr T. H. Hughes, F.A.C.C.A.

The President introduced the representatives of other countries: the English, French, German and Belgian (Flemish-speaking) representatives were in turn welcomed in short speeches in their own languages, while the Scandinavian representatives were welcomed in English, which was used as an international language. Apart from these introductions, all proceedings were in the Dutch language.

Recent Work of the Netherlands Institute

In a short opening address, the President of the Netherlands Institute gave a brief account of the Institute's recent work.

In the examinations, the important subject of business economics (*bedrijfshuishoudkunde*) had been introduced. An advisory committee on professional matters had been constituted during the year to study the fundamental principles of the profession, to issue publications to the members, and to give advice to individual members. This committee will also take cognizance of certificates issued by accountants and be empowered to consult with the members. In this way the Netherlands Institute is endeavouring to reach a systematic determination of professional problems for the benefit of the accountant members and the general public, but without diminishing the responsibility of the individual accountant.

The disciplinary jurisdiction of the Institute includes a council of discipline and a council of appeal, in which lawyers also collaborate; the judgments delivered by these councils are made public in the official organ of the Institute.

Economic Position of the Netherlands

As in the previous year, the morning session was of general interest. Dr K. P. van der Mandele, President of the Rotterdam Chamber of Commerce and Industries, gave an address lasting over an hour on the present economic position of the Netherlands in the economic structure of Europe after the war. After tracing the international background of rearmament, changing prices of raw materials, and the domestic needs for new houses and other capital outlay, the speaker appealed for less consumption and more saving in Holland.

He made a plea that Dutch experts and engineers carrying out work in other parts of the world should retain a connexion with their homeland. He hoped that the banks, while still maintaining the security of their advances, could lend rather more to Dutch industry.

In the subsequent discussion, Professor ten Doesschate (now engaged in the direction of the Royal Dutch Blast Furnaces, and formerly at the Economic University at Rotterdam) and Professor de Roos (Professor of Economics at the Amsterdam Free University) took part. This address and discussion was followed with the closest interest.

In a few sentences, the President summed up the morning session. It was possible to be realistic in facing the country's difficulties and optimistic about their solution. Holland, as of old, has great reserves of 'head and hand' and in the upbuilding of a new Netherlands, accountants were ready to take their full part.

Functions of Accounting in Business

'The demands on accountancy in the fulfilment of its functions in business' was the subject for the afternoon session. An address of thirty-four printed pages had been prepared by a member of the Institute, Dr H. J. van der Schroeff, Professor in Business Economics in Amsterdam University, and had been circulated in advance to the members of the Institute.

The speaker traced the history of accountancy, particularly in relation to the recording of business transactions and the ascertainment of profit and loss, saying that this is not now sufficient: if accountancy is to be a tool of management, it should make more use of business economics, which includes cost accounting, management and business organization. The introduction of standard costing yields advantages in controlling efficiency, in the application of the 'principle of exception', in the introduction of a task-imposing element in the organization, and in the simplification of records and promptness of reporting. The budget increases the importance of accounting and enables business policy, execution and conduct to be verified. Properly handled, accounting records become an instrument which brings to light imperfections in the organization and enables the management to control through figures.

In this short report it is not possible to do justice to the full printed address or to the further speech made at the afternoon session in which Dr van der Schroeff introduced his address and recounted some of his experiences during the year when he and the President, Mr van Essen, had made investigations into accounting methods in the United States of America.

Many practising members took part in the discussion

which followed, opened by a member of the Institute, Professor Meij, of Amsterdam University, who had regularly given advice on the Netherlands National Budget. Possibly due to the subject of replacement values being raised, the afternoon was over before all the intending speakers had taken part. A number of written contributions were handed in and the debate stood adjourned.

English Representatives at the Dinner

In the evening, the President was in the chair at a dinner held at the Doelen Hotel, attended by members of the Dutch Institute and their ladies, representatives of other countries being the guests. After the loyal toast came a toast to the representatives from England. Speaking in the Dutch language, Mr Douglas Clarke, representing the English Institute, in the course of his reply on behalf of all the English representatives expressed their appreciation of the Dutch hospitality, and offered a special welcome to the many members of the Dutch Institute, and their ladies, who were proposing to attend the Sixth International Congress on Accounting to be held in London in June 1952.

The conference arrangements were worthy of the high standing of the Netherlands Institute, and the English representatives will remember the honour paid to their country, the grave sense of purpose in the conference sessions, the friendliness of their Dutch professional brethren, and the October sunshine streaming into the conference hall in Amsterdam.

NOTES AND NOTICES

The Royal Commission

It has been announced that public meetings of the Royal Commission on the Taxation of Profits and Income will be held on Thursday and Friday, November 1st and 2nd, in the Incorporated Accountants' Hall, Temple Place, Victoria Embankment, WC2.

The meetings, at which oral evidence will be heard from the Federation of British Industries, the Association of British Chambers of Commerce and the National Union of Manufacturers, will commence each day at 10.30 a.m.

London and District Society of Chartered Accountants

The first of a series of lectures on prospectuses entitled 'A Prospectus: I, From the point of view of the Stock Exchange' will be given by Mr F. R. Althaus, a Vice-chairman of the Quotations Committee of the London Stock Exchange, on Tuesday, November 13th, at 6 p.m., in the Hall of the Chartered Insurance Institute, Aldermanbury, London, EC2. Members will notice the change of date of this lecture, which was previously arranged for November 6th.

Personal

MESSRS DIXON, WILSON, TUBBS & GILLETT, Chartered Accountants, of 24 Basinghall Street, London, EC2, announce that they have admitted to partnership as from October 15th, 1951, Mr KEITH AUBREY NICHOLSON, A.C.A., who will shortly be sailing to Canada where he will be the resident partner of a branch of the firm.

MESSRS PRICE WATERHOUSE & CO, Canadian firm, announce that they have opened offices at Pigott Building, James Street South, Hamilton, Ontario, and 10076 Jasper Avenue, Edmonton, Alberta, Canada.

MESSRS BRIGHT, GRAHAME, MURRAY & CO, Chartered Accountants, announce that they have recently removed to more commodious offices and that their address is now 61 Portland Place, London, W1. Telephone Langham 6922–4.

MESSRS PARKINSON, PATEMAN & CO, Chartered Accountants, of 6 Queen's Terrace, Exeter, and of Okehampton and Honiton, announce that, to bring the style of the firm into line with the names of the existing partners, they will be practising as from October 31st under the style of SMITH, WHEELER & HAY, Chartered Accountants. The constitution of the firm will remain unchanged and the practice will be continued from the same addresses.

Manchester Society of Chartered Accountants

'The effect of taxation upon industry and the individual' is the title of an address to be given by Mr E. G. Turner, M.C., F.C.A., at a meeting of the Manchester Society of Chartered Accountants on Monday next, October 29th, at 6 p.m., in the Chartered Accountants' Hall, 60 Spring Gardens, Manchester, 2.

The members of the Incorporated Accountants' Society of Manchester and District have been invited to attend this meeting.

The Institute of Bankers

The Lord Mayor of London, Sir Denys Lowson, BART., the Governor of the Bank of England, Mr C. F. Cobbold, and the President of the British Bankers' Association, Lord Balfour of Burleigh, D.C.L., D.L., were among 500 distinguished guests who attended a reception held on October 17th by the President of the Institute of Bankers, Mr F. C. Ellerton, to inaugurate the new premises of the Institute at 10 Lombard Street, London, EC3.

An important feature of the new premises is the library, containing a valuable collection of over 50,000 volumes, which is spaciously housed in a room containing panels displaying in bas-relief the financial history of England.

The Chartered Accountant Students' Society of London

Sir Frank Newton Tribe, K.C.B., K.B.E., Comptroller and Auditor-General, will give a lecture entitled 'Parliamentary control of public expenditure' at 5.30

p.m. on Monday, October 29th, in the Oak Hall of the Institute. The eminence of the lecturer and his special experience of the field he is covering, promise to his audience information and practical knowledge of a high order on auditing and financial control applied under special conditions. The lecture is an important one to students, especially those who are approaching their Final examination. The chair will be taken by Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., President of the Students' Society and President-elect of the Sixth International Congress on Accounting to be held in 1952.

Chartered Accountants Students' Society of Kingston upon Hull

Meetings of the Chartered Accountants Students' Society of Kingston upon Hull have been arranged for the 1951–52 session at intervals of approximately a month and include a mock company liquidation meeting and a joint meeting of all the Hull professional students' societies. The subjects of the lectures include: general costing principles, by a Cost and Works Accountant; income-tax: reliefs for losses, by an Inspector of Taxes; sale and hire-purchase of goods, by a solicitor; trusteeship law, and investigations and reports.

North Yorkshire and South Durham Chartered Accountant Students' Society

The inaugural meeting of the newly-formed North Yorkshire and South Durham Chartered Accountant Students' Society was held recently, at which the following officers were elected:

President: Mr W. J. E. Ringquist, J.P., F.C.A.

Vice-President: Mr H. D. Anderson, F.C.A.

Hon. Treasurer: Mr J. P. Ord.

Hon. Secretary: Mr R. W. Swinbank, F.C.A., 70 High Street, Stockton-on-Tees, Co. Durham.

The Balance of Payments

'The balance of payments' will be the subject of the Stamp Memorial Lecture to be delivered by Professor L. C. Robins, C.B., M.A., B.SC., on Tuesday, November 20th, at 5.30 p.m. in The Senate House, University of London (entrance from Malet Street or Russell Square, WC1).

The chair will be taken by Professor Dame Lillian Penson, D.B.E., PH.D., LL.D., D.LIT., and admission will be free, without ticket, to students of the University and to others interested in the subject.

The Manchester Chartered Accountants' Students' Society

The annual report of the committee of the Manchester Chartered Accountants' Students' Society, which was presented at the Society's recent sixty-eighth annual general meeting, is a record of activity and growth over the year, membership having again increased, now numbering nearly 900.

During the winter session of 1950–51 a series of evening and Saturday morning lecture-meetings was held and several afternoon visits were made to firms in Manchester. The senior society again combined with the Liverpool Society of Chartered Accountants in organizing residential courses at Burton Manor, near Chester, and four successful four-day courses were held.

The following officers have been elected for the year 1951–52:

President: Mr H. Sutherst, F.C.A.

Vice-President: Mr M. Wheatley Jones, B.COM., F.C.A.

Chairman: Mr J. V. Eastwood, F.C.A.

Hon. Librarian: Mr M. E. Short, A.C.A.

Hon. Auditors: Messrs J. Wood, A.C.A., and G. B. C. Ogden.

Hon. Secretary and Treasurer: Mr Anthony L. Smith, A.C.A., c/o Messrs Swanwick, Terras & Co, 64 Cross Street, Manchester, 2.

Hon. Secretary, Joint Tuition Committee: Mr T. S. Andrew, A.C.A., 57 King Street, Manchester, 2.

Assistant Secretary and Treasurer (to whom all general communications should be sent): Miss I. Ritchie, LL.B., Manchester Chartered Accountants' Library, 60 Spring Gardens, Manchester, 2.

Union of Chartered Accountant Students' Societies

Members of chartered accountant students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area.

There is also an arrangement for transfer of membership without additional fee for members who permanently change their district. Such interchange should be carried out through the secretaries of the societies concerned.

Students' society meetings are held in the following towns: Birmingham, Blackpool, Bournemouth, Bradford, Brighton, Bristol, Cardiff, Chelmsford, Coventry, Exeter, Grimsby, Hull, Hastings, Leeds, Leicester, Liverpool, London, Manchester, Norwich, Newcastle, Nottingham, Portsmouth, Preston, Sheffield, Southampton, Southend, Sunderland, Swansea, York.

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Hockey

The first game of the 1951–52 season of the Chartered Accountants' Hockey Eleven will take place at the Old Deer Park ground, Richmond, on November 14th, when a match has been arranged against the Law Society.

Members of the Institute who are interested and who would like to take part in this and subsequent games, are invited to get into touch as soon as possible with the Hon. Secretary, Mr C. O. Merriman, of Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2. The retiring Hon. Secretary, Mr W. B. Johnston, is taking up an oversea appointment early in the New Year.

As a Members *v.* Articled Clerks match is to be played later in the season, the Hon. Secretary will be pleased to hear from articled clerks who are interested.

Recent Publications

RANKING, SPICER AND PEGLER'S EXECUTORSHIP LAW AND ACCOUNTS. Eighteenth Edition, by H. A. R. J. Wilson, F.C.A., F.S.A.A. xxxi+443 pp. 10½×7¼. 30s net. H. F. L. (Publishers) Ltd, London, and Sir Isaac Pitman & Sons Ltd, London.

OXFORD JUNIOR ENCYCLOPAEDIA, Vol VII, Industry and Commerce. xiv+493 pp. 10×7½. 30s net. Oxford University Press, London.

THE NEW ISSUE MARKET AND THE FINANCE OF INDUSTRY, by R. F. Henderson, Fellow of Corpus Christi College, Cambridge. xii+172 pp. 8½×5½. 25s net. Bowes & Bowes, Cambridge.

DICKSEE'S AUDITING. Seventeenth Edition by Brian Magee, B.COM., F.C.A. xvi+896 pp. 8½×5½. 52s 6d net. Gee & Co (Publishers) Ltd, London.

Our Contemporaries

THE JOURNAL OF ACCOUNTANCY. (New York.) (September.) 'How to Use Client's Staff to Cut Costs of Audit of a Small Business', by David C. Hearne, C.P.A.

THE CHARTERED ACCOUNTANT IN AUSTRALIA. (Sydney.) (July.) 'The Service of the Chartered Accountant in the Conversion of the Ownership of a Business from Sole-Trader or Partnership to that of a Limited Company', by H. C. Stewart, F.C.A.(AUST.).

Other Publications Received

THE CONTROLLER. (New York.) (September.)
THE WOMAN C.P.A. (New York.) (August.)
BULLETIN FOR INTERNATIONAL FISCAL DOCUMENTATION. (Amsterdam.)
THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (July.)
THE ACCOUNTANCY JOURNAL. (Delhi.) (August.)
LOCAL GOVERNMENT FINANCE. (October.)
THE INDIAN CHARTERED ACCOUNTANT. (New Delhi.) (August.)
LLOYDS BANK REVIEW. (October.)
THE BUILDING SOCIETIES' GAZETTE. (October.)
THE INTERNAL AUDITOR. (Stamford, Connecticut.) (September.)
N.A.C.A. BULLETIN. (New York.) (October.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 28TH, 1876

Extract from 'Notes in Passing'

Bankruptcy Law Amendment

We print elsewhere a communication from a 'Scotch Accountant', which deserves a word of comment. Our correspondent is naturally unacquainted with the administration of the bankrupt law in this country, but is able to speak of a bygone time when officialism had its own way in Scotland, and brought forth its natural fruits. And, curiously enough, he is able to point out that even now the law agent in Scotland absorbs an unnecessarily large portion of the assets of insolvent estates; the English parallel being obvious here also. The suggestion with which he concludes is not, however, one which we can endorse. We have seen enough of the results of offering prizes for essays on subjects interesting to the profession, to be able to form a strong opinion, that though such prizes may do good in bringing out the industry and intelligence of the youngest members of the fraternity, no hope need be entertained that they will induce the more experienced and competent men to devote their leisure to the composition of essays. If, instead of offering a prize, the leading societies would make the necessary arrangements for the performance of the work by someone on whom they could rely, and would put themselves to the trouble of considering his suggestions before making them public, so that eventually they could submit to all concerned a well-matured scheme, no time and expense so bestowed would in our opinion be wasted.

Erratum

In the caption of the photograph in the middle of page 375 of last week's issue, the name of Mr R McNeil, F.C.A., appears in error. The name should read Mr Basil Smallpeice, A.C.A., who is a member of the Council of the Institute.

ANNOTATED TAX CASES

Edited by ROY E. BORNEMAN *of Gray's Inn, Barrister-at-Law*

Published at frequent intervals. Reports of Income Tax, Sur-Tax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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The Accountant

ESTABLISHED 1874

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AFTER THE ELECTION

'POLITICS', said ROBERT LOUIS STEVENSON, 'is perhaps the only profession for which no preparation is thought necessary.' The truth of this observation is demonstrated anew at each general election when, jerked into temporary awareness of their duties as citizens, amateur statesmen spring up in their thousands. There is, for example, the man who, although unable to restrain errand boys from using his front lawn as a right-of-way, does not hesitate to state at length, if not in detail, how he would deal with the situation in the Middle East. Then there is the financial genius who cannot make ends meet on his salary but who nevertheless knows, beyond all argument, how to close the dollar gap. The air at election times is so filled with a medley of opinions, ranging from the authoritative to the downright irresponsible, that the few voices of reason are in constant danger of being obscured by these 'prophets of the utterly absurd'.

The remedy is, of course, to prepare young people for politics gradually by instilling in them a sense of citizenship and by persuading them to take an active interest in local government. This has always been recognized as desirable, but nowadays it is absolutely essential. Modern politics is a profound science which requires an assiduous apprenticeship, and anyone who attempts a a short cut to the complete understanding of its ramifications and then holds himself out to be a politician is a menace both to himself and to the community.

Of the many qualities which go to the making of a politician, none is more important than a sound grasp of the principles of finance. Each year, the Government is responsible for spending approximately one-third of the national income and the volume and variety of the transactions are now so vast that, as a recent report put it, the value of simplicity can no longer be claimed for such records as the weekly Exchequer return and the annual Financial Statement. It is therefore imperative that the workings of the Exchequer and the consequences of its impact on the national economy should be fully realized by all members of Parliament.

MR CHURCHILL'S new administration will have an early chance of exercising this faculty, for one of the two most urgent matters confronting it is the foreign exchange crisis, an outline of which was given in a leading article in this journal last week. The emergency calls for daring and drastic handling and all who put the solvency of the country before party considerations will wish the PRIME MINISTER well in a task which, if not so spectacular as some, is as momentous as any he has attempted in the course of a long and distinguished career.

TAXATION CONFERENCE

A UNIQUE event in the history of taxation occurred last week at Eastbourne when about 700 guests attended a conference organized by our contemporary *Taxation*. Practitioners from every English county, as well as from Scotland, Ireland, Wales, and the Channel Islands were present and were able to attend lectures by eminent speakers on various aspects of tax law and practice, and to take part in the discussions which followed. The conference was held on Friday, Saturday and Sunday last and was inaugurated by Mr Ronald Staples, Editor of *Taxation*. Never before, Mr Staples said, had people been called upon to suffer so much tax without understanding the basis on which it was calculated, or being able to satisfy themselves that the amount demanded was in accordance with the law. The complexities baffled the experts and even eminent judges, and the taxpayer almost invariably paid without the certainty whether the demand was accurate or not. He could never be sure that he would not receive an additional demand. Besides simplification there was needed greater uniformity of practice throughout the country. Touching on the subject of evasion, Mr Staples suggested that a great deal of additional revenue could be obtained if those taxpayers who had underpaid, particularly during the recent war, were given say two years in which to make voluntary restitution, with compound interest but without penalties. He felt that as much as £50 million extra revenue might be netted in this way.

After the Mayor of Eastbourne, Alderman R. J. S. Croft, J.P., in an amusing and witty speech, had given a civic welcome to the conference, an address was given by Mr Wyn Griffith, O.B.E., D.LIT., on the 'Relationship of the inspector to the accountant'. Dr Griffith is the Public Relations Officer and the Director of Training of the Inland Revenue, a dual position which especially fitted him to give this address. He pointed out that an atmosphere of mutual understanding helped both inspector and accountant to perform their respective tasks more efficiently, and he spoke with approval of the growing practice of holding joint meetings of inspectors and accountants in large provincial towns, in a social atmosphere, where talks were given, mock appeals held, and the like. Besides mutual understanding, Dr Griffith made a plea for tolerance. He said that no doubt many of the letters which emanated from his department contained what were considered to be absurd requests and might be annoying in form, but that most frequently arose from mere thoughtlessness. Nevertheless, he reminded his hearers of the report prepared a short time ago by a committee set up to inquire into the organization of the Inland Revenue, on which committee a distinguished member of the accountancy profession had sat. That report said,

> 'The department has a training record unsurpassed by any Government department. Moreover, so far from being bound to its traditional lines, it is alert and receptive to new ideas.'

The second day of the conference, with Mr Staples in the chair, began with an address by Mr Percy F. Hughes, A.S.A.A., F.C.I.S., on 'Back Duty'. After explaining the way in which this branch of work was organized in the Inland Revenue, he gave a masterly review of the difficult and abstruse penalty provisions of the Income Tax Acts, and showed the course which the negotiations for the settlement of back duty liability normally took in practice. He made the point that penalties such as '£20 and treble the tax chargeable' were not very onerous in the days when the standard rate was a few pence, but that, with a standard rate of 9*s* 6*d*, they were confiscatory. One of the many valuable practical pieces of advice which he gave was in connexion with the submission of an offer for settlement. As the offer would be submitted by the Inspector to his head office, it was advisable to incorporate, in the letter making the offer, a full statement of all the facts which could be stated in mitigation, facts which might be unknown or glossed over by the inspector. Some very illuminating questions and answers on the practical side of back duty settlements followed Mr Hughes' address.

On the same morning, Mr Roy Borneman, Barrister-at-Law, addressed the conference on the subject of 'Procedure and conduct of appeals'. The chair at this session was occupied by Mr C. V. Best, F.S.A.A. This is indeed a subject on which little guidance is to be obtained other than in the hard school of practical experience, and

even that does not always produce a good advocate. Mr Borneman quoted the remark of a learned judge about a certain advocate who was constantly appearing before him:

> 'He would conduct his cases much better if he did not insist upon bringing his facts and arguments as if they were a sack of apples to be tipped out in front of us and expect us to pick out the big ones.'

Mr Borneman observed that having said that he might well sit down for, in his view, the learned judge's comment contained practically all there was to be said about the conduct of appeals. It is certainly true that the tendency every inexperienced advocate before the tax Commissioners has to fight, is the tendency to imagine that they will grasp his facts and arguments very much more quickly than he grasped them himself. Mr Borneman stressed the importance of the taxpayer's right to open his appeal, notwithstanding that the Commissioners might prefer to have it opened by the inspector with whom they are familiar. Another important point was to retain the initiative thus acquired. A third was the advantage of having the last word, an advantage not to be given up without very cogent reasons. The speaker also laid stress on the importance of immediately expressing dissatisfaction where the Commissioners' decision was adverse, so that the right of appealing to the High Court should not be lost.

In the afternoon, with Mr W. S. Carrington, F.C.A., in the chair, Mr H. A. R. J. Wilson, F.C.A., F.S.A.A., coped manfully with the task of dealing in one hour with the Millard Tucker Report. He began by remarking that the hopes of the report being implemented were not high in view of the fate of earlier reports, and the fact that following the report's recommendation that initial allowances be increased, these same allowances had been abolished. Having started from the point that taxable profit should be computed on established accountancy principles, the Millard Tucker Committee had been handicapped by the difficulty that accountancy principles were not quite so established as some liked to think. Mr Wilson urged his listeners not to encourage tax inspectors too much by taking their decisions as law; they should always demand authority for propositions laid down by the inspector which were not clearly right. Turning back to the report, he pointed out that of the two million Schedule D taxpayers, only 200,000 were companies paying at the standard rate. The remaining cases were complicated by personal allowances and sur-tax so that as long as we had these things a drastic simplification was impossible; indeed the present tendency was away from simplicity. Mr Wilson gave an illuminating account of the problems of basis years and explained the practical working of the *Osler v. Hall* decision which had exercised the minds of the Committee. He felt that the rules as to basis could well be simplified, even at the cost of transitional difficulties and some loss of tax. Mr Wilson dealt also with the problems of replacement in times of high taxation and inflation, pointing out that the two combined made it impossible to develop a business. The Committee's recommendation that profits made by one member of a group of companies out of sales to another member should not be taxable was quite revolutionary. It was almost a suggestion that Rule 13 relief should apply to groups of companies; certainly it was necessary to look at the group as a whole before you could find the real profit. There was a reflection of this attitude in the Finance Act, 1951, which entitled the Inland Revenue to disregard the price paid by a company for an asset purchased from another company under the same control, so as to counteract sales at fictitious prices. These two developments were significant.

On the Sunday morning the conference was presided over by Mr J. C. Latham, D.L., F.S.A.A., F.A.C.C.A., F.C.I.S., and Mr T. L. A. Graham, A.S.A.A., gave a talk on 'Profits tax'. He began by saying that the change of Government might result in profits tax being replaced in the next Budget by some other tax, but even if that were so, he and his listeners would still be required for the next few years to concern themselves with the law as now existing. He pointed out that many accountants seemed to overlook the fact that this tax was a tax on profits, not on distributions as such, and that once all the profit had borne tax at the full rate, there could be no further liability, no matter how high the distributions. Distribution charge could not be at a higher rate than that at which non-distribution relief had been given. Moreover, distributions which were not made to members did not count. On the other hand a distribution was none the less a distribution because it came out of untaxed profit. Mr

Graham also reviewed the anti-avoidance provisions of the Finance Act, 1951, and the problems likely to arise from them.

The serious part of conference ended with an open discussion on taxation problems, with Mr Staples in the chair, when the various speakers answered general questions from the floor.

The social side was not neglected at conference. On the first day a cocktail party was given by Mr Staples and on the second day a reception and dance was given by the Mayor of Eastbourne, while on the final day a golf competition was held. For the ladies there was also a mannequin parade and a conducted tour of Glyndebourne. The organizers of this novel conference are to be congratulated on its resounding success.

NORTH AMERICAN COMMENTARY–XXIX

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
Professor of Accounting, McGill University, Montreal

Journal of Accountancy, New York, September

Wanted, a Fundamental Tax Policy

DISCUSSING the evolution of tax policy, the editorial recalls that many years ago the American Institute of Accountants called for the appointment of a commission to recommend a fundamental tax policy for the United States. The matter under discussion is whether or not taxes may exceed 50 per cent if corporations are to continue to expand. The National Association of Manufacturers and the American Retail Federation are reported to have argued for direct consumption taxes rather than increased income-tax, with much authoritative support outside the labour unions. The editorial laments 'the glaring lack of any rational tax policy for the United States' and urges accountants to demand reform at every opportunity.

Indiscriminate Use of Composite Statements

A quoted extract from Professor W. A. Paton's *Advanced Accounting* warns against the practice of publishing combined reports of holding and subsidiary companies without any financial accounts of the holding company itself. This warning has particular pertinence in Canada where the Dominion Companies Act permits the holding company to publish merely consolidated accounts and withhold its own accounts. Many companies follow this practice and reform of the Act seems to be called for.

Disclosure of Fixed Asset Commitments

Accounting firms in the United States do not, as a rule, insist on disclosure of large commitments if they are not expected seriously to deplete normal working capital, says Mr P. N. Wehr, Jr., C.P.A. He quotes with approval (but with some question as to distortion of the working capital ratio) one method of disclosure by which the funds appropriated are separated from the current assets and shown in the plant section, while the reserve is included in current liabilities. The accountant has a means of disclosure, at his discretion, in his long form report. On the whole, corporate officers prefer to mention substantial commitments in the president's letter. Mr Wehr considers that the increased use of provisions, apart from depreciation provisions, to indicate factors relating to plant commitments, may mark a new trend. He says that the practice of using footnotes for the purpose seems rapidly to be dying.

Allocation of Non-manufacturing Costs

A sub-committee of the National Association of Cost Accountants has completed a field survey of practice in seventy companies in regard to the allocation of non-manufacturing costs. Dr Sterling K. Atkinson, C.P.A., Professor of Accounting at Temple University and chairman of the sub-committee, reports that accounting refinements for the direct charging of manufacturing costs have reduced the joint cost segment left for more or less arbitrary allocation. Consequently, full allocation (the net profit approach) seems popular today. He stresses the danger of making short-run decisions on the basis of such full allocation, in view of the factor of short-run fixed costs, which may not be so obvious to others as it is to accountants. Decisions in such cases are therefore often based on marginal analysis (the contribution margin approach). Thus only costs incurred by reason of the particular action under consideration are charged, those which will not vary with the choice being omitted. For long-run purposes the net profit approach is satisfactory

since managerial action may change the costs involved.

Internal Audit for the Army

The United States army is reported to be installing the latest internal audit procedures. The Audit Division, in the office of the Comptroller of the Army, will appraise accounting and financial operations and directly related policies, organization procedures and personnel, as a basis for protective and advisory service to all levels of management concerned. Appraisal will be the primary function but protection against defalcation will be a resulting advantage. Congress has, in two statutes, openly recognized the necessity for such measures.

Accounting Review,
Menasha, Wisconsin, October (quarterly)

Internal Auditing Development

Consistently with the development just reported for the army, Professor Walter B. Meigs, of the University of Southern California, tells of the growth of internal auditing practice in the United States in the last decade or so, stressing its changes in objectives. He traces the development from routine clerical work into (1) what is essentially a critical appraisal activity to aid top management, through the controller, in efficient administration, and (2) a review of policies and procedures and actual performance. The development has come mainly from the internal auditors sent out as travelling representatives to visit widely scattered branches. An important contributory event was the founding of the Institute of Internal Auditors in 1941. Originally, says Professor Meigs, many managements seem to have contemplated employment of internal auditors to reduce the fees payable to external auditors, but they now realize that this was a false economy. Some companies are said to be now considering whether the internal audit staff should be expanded to include industrial engineers and other technicians, the trend in such cases being towards investigations of operating problems as opposed to accounting and financial matters. At present there are two major schools, one giving primary emphasis to review of accounting problems and matters of finance, the other concerned largely with the efficiency of performance of specific departments.

Price Level Changes and Financial Statements

The original pronouncement on 'Concepts and standards underlying corporate financial statements', made by the American Accounting Association (of University Teachers) is now supplemented by an important new statement. This statement goes much further than those made thus far by the main professional accounting bodies. It begins, it is true, on the usual lines, for the use of historical cost in primary financial statements for stockholders is still recommended. Also to say that

> 'there is reason for believing that knowledge of the effects of the changing value of the dollar upon financial position and operating results may be useful information'

is surely a signal understatement! Once this is admitted the discussion goes on in much more convincing language. Use of a general price index, in a consistent manner, for conversion of *all* statement items affected is suggested, on the grounds that specific replacement costs have nothing to do with the matter. This theory must be correct if the aim is, as it should be, to maintain intact the effective productivity of the capital invested. Statements so adjusted, says the report, would not as yet, at any rate, be covered by the opinion of independent accountants, but it is suggested that these accountants might assist in their preparation as explanatory material. The final conclusion is forthright enough:

> 'It is the judgment of the Committee, therefore, that the time has come to give adjusted dollar statements a thorough test.'

What is now needed is a similar statement by the professional accounting bodies, followed by definite action.

The New York Certified Public Accountant,
New York, September

Accounting Students and the Liberal Arts

Evidence of the liberalization of specialized accounting studies, since the Harvard Report of a few years ago, is given by Professor Arthur Blake in a review of the curriculum at Champlain College, State University of New York. The first year of a four-year course has no specialization, covering arts, letters and philosophy; social science ('America and its world environment'); a natural science; mathematics. Accounting theory and practice and elements of business begin in the second year, along with the arts, including a modern language. The third and fourth years give scope for individual development according to the student's choice of career. The general plan of such a curriculum seems essentially sound in its concern for a liberal education.

GENUINE OR FALSE?

SCIENCE AND SUSPECT DOCUMENTS

by J. A. RADLEY, M.Sc.(Lond.), F.R.I.C.

A DOCUMENT becomes 'suspect' immediately the possibility arises that it is not what it purports to be. It may be suspected that the document is entirely false, or that it is false through matter being deleted, altered or added. Since it is unusual for a document to be falsified unless it is to someone's gain at the wrongful expense of another, it is important to detect the fraud and to discover the truth.

The detection and examination of suspect documents has made great strides in the last twenty-five years, the weapons of the scientist in this field being the microscope and the camera, using ordinary light and/or colour filters, and ultra-violet and infra-red rays, with some chemical tests.

Evidence from Paper and Inks

The dates on which the various fibres, the different binding and coating media and the several mineral fillers were first used in making paper are known with a fair degree of accuracy. If, therefore, one finds any one of these three classes of material in a paper purporting to be of an earlier date than that on which it is known that the fibre etc. was first used, the anachronism immediately betrays the attempted fraud. Often the age of a writing on a paper can be determined, but not of pencil writing or of printing inks; typewriting, however, may give data of value.

The Use of Colour Filters

In cases of writing done with an ordinary nib, and ink from an inkwell, it is often possible to identify the source of the ink by using the microscope in conjunction with the camera and a colour filter. Thus in a number of specimens of handwriting, such materials as starch granules, and other minute debris associated with the employment of the various persons have been detected.

Following fraudulent alterations to account books, concealment of the alteration has been attempted by 'accidentally' upsetting ink over the page. Similarly, official cancellation stamps bearing the date of expiration of a document etc. have been deliberately obliterated by pouring ink over them. In both types of case, photography through a colour filter has proved of great value, the photograph reproducing the original written or printed material without any trace of the obliterating ink mark. Where writing has been obliterated by censorship etc., infra-red photography has sometimes given excellent reproduction of the original writing or print.

Colour filters are of great value in the examination of suspected forgeries of multicoloured bank-notes or cheques, as comparison of genuine and suspect designs is simplified through using photographs. Alterations or additions to a document, made with ink different from the original but apparently similar in colour, may often be shown quite plainly by photography through colour filters or by the use of an instrument known as the chromostat.

Use of Ultra-violet Light

In ultra-violet light various papers, reasonably similar by daylight, often show wide differences in behaviour, revealing blue, yellow, purple and brownish hues. This allows comparisons between various pages of a document to check uniformity. Adhesives used on stamps, and for book-binding etc., show different fluorescences which have sometimes led to the detection of page substitution or illegal manipulation. Inks of various types often appear extremely different although they may seem similar in daylight.

Certain ink erasers, more particularly those of the chemical type, alter the fluorescence of the paper at the point of application and may thus be detected. Iron gall inks when bleached give a dark shadow of the original text, but some inks not containing iron, show a fluorescent outline of the original writing on bleaching. Both the shadow and the bright fluorescence phenomena become visible if the appropriate inks have been bleached by exposure to sunlight. A piece of writing made with a ball-point pen, and completely faded by exposure to light and weather, was quite readily reproduced under the lamp and photographed in the author's laboratory.

Microscopy and photomicroscopy are invaluable for examining and reproducing the various minutiae of handwriting and allow a considered opinion to be passed upon such points as the type of instrument used, correspondence of characteristics between suspect and genuine writing, whether alterations have been made and, in some instances, when made.

Sequence of Writing Strokes

In several cases it has been possible to tell which stroke, of two crossing each other, was the last made, but when pen writing is superimposed on pencil it is not possible to say which stroke was made first, and similarly with letters stamped with a rubber stamp and intersecting pencil writing. The examination of a carbon copy does not give very much information but is occasionally useful.

With ink writing, however, if the first written stroke was wet when crossed by the second stroke no decision as to which is the uppermost stroke can be made with certainty. If, however, the first writing is dry before the superimposition of the second, then microscopical examination will show which is the topmost stroke.

Various types of pen give writing which shows a structure peculiar to the type used and the writing habits of the user.

Ball-point Pens

In the last five or six years the ball-point pen has gained wide popularity and was being sold in Europe in 1939, although originally patented in 1888 by John Loud. This type of pen has a rotatable steel ball, 1 mm. in diameter, instead of a nib. The sphericity has to be held within a ten-millionth of an inch and the ball is extremely hard. When writing the friction between the ball and the paper causes the former to rotate, pick up ink from a chamber behind, and deposit it on the paper. The clearance is about ·0002 in. and pressure has no influence on the amount of ink deposited. More ink is deposited on rough papers than on smooth ones owing to the greater friction causing more rotation of the ball.

The ink in these pens is quite different from that used with stylo or ordinary pens and a characteristic of ball-pen writing is the blob or blot at points in the writing where the direction of the stroke is changed. Ball-point pens have reintroduced certain difficulties into document examination since the ball point does not indicate the pen position or angle of the pen to the body of the writer. Generally, it has to be held more vertically than the usual type of pen, and as this is an unnatural writing angle for most people it leads to abnormal writing habits causing sporadic distortions and changes in detail of the handwriting. There are, too, irregularities due to difference in rate of ink flow. Such writing is, therefore, most difficult to interpret or compare accurately.

Erasures

Writings may be erased either by mechanical methods, e.g. with a rubber or knife, or by chemical methods, e.g. bleaching solutions. Mechanical erasers can be used for pencil and pen but chemical bleaches are effective only with inks. Erasures are revealed by loss of 'shine' on the surface of the paper or by differences in colour of the paper at the location of the erasure. Often paper will be thinner where the writing has been removed mechanically, and when held up to the light this spot will show lighter than the rest of the sheet. 'Resurfacing' the paper with borax and friction-polishing, or by painting with an appropriate solution can be readily detected.

It is not often possible to reproduce pencil writing which has been thoroughly rubbed out, except when the writing was heavy, when suitable photographic methods can reproduce the details of the original. Such photographic methods allow the reproduction of a heavily written pencil message from the page *underlying* that on which the original passages were written.

Writing over an obliterated passage may be carried out with apparent success but often is detectable, whilst writing made over existing folds in paper can be distinguished from that made before folding, if the folds in the latter case intersect the writing.

Comparisons of Writing

To identify a piece of writing as the work of a certain person or a certain machine, such as a typewriter or a cheque-writing machine, the writing on the suspect document is compared with samples of genuine writing. Enlarged photographs are made and the angle of slope and the heights of various letters and spacings, the number of times the pen or pencil is lifted from the paper, and the distortion of type are carefully measured in both documents.

Letters cut from the photographs of the suspect document may be mounted to form a passage which appears in the genuine document and then compared with it to show marked similarities or marked divergencies of characteristics. Since each machine gives characteristic writing, that on which a document was typed may often be identified.

This brief survey will perhaps serve to show that once a document has become 'suspect', and is submitted to expert examination, there is little chance of the truth being evaded.

VALUATION OF HOLDINGS IN PRIVATE LIMITED COMPANIES FOR PROBATE PURPOSES

by T. A. HAMILTON BAYNES, M.A., F.C.A.

This paper is complementary to, and should be read in conjunction with, Mr W. G. Campbell's paper on private companies' valuations generally. Basic principles have therefore been assumed. (Mr Campbell's paper was reproduced in our issues of October 20th and 27th.)

Introduction

IT is fifty-seven years since Lord Harcourt introduced the Finance Bill of 1894 and Section 7 (5) of that Act is still the operative section for valuing shares of limited companies on the death of a member. It is a tribute to accountants and the Estate Duty Office that in these fifty-seven years there have been so few appeals. An appeal may be made to the High Court or County Court (depending on the amount)[1] and it is difficult to believe that it is only the cost of an appeal which accounts for the small number. It has been suggested that there is a case for appeals to be heard before a tribunal such as the Special Commissioners. This suggestion has been considered in some detail by the Taxation and Research Committee of the Institute and it decided that it would not be desirable for the Institute to make or support representations in favour of such a change.

That this is a subject of supreme importance to accountants must be obvious. In 1950 over 90,000 holdings of unquoted shares were dealt with by the share valuation department of the Estate Duty Office, and the capital value of unquoted shares, which were investigated by the department, amounted to over £50 million, on which sum duty became payable.

Section 7 (5) of the Finance Act, 1894, defines the 'principal value' on which estate duty is based as the price which in the opinion of the Commissioners the property would fetch if sold in the open market at the time of the death of the deceased. An accountant who spends most of his professional life dealing with facts is thus faced with two unknowns: he has to estimate such an unknown quantity as an opinion to be expressed by officials of the Estate Duty Office on behalf of the Commissioners; and he has to consider an imaginary purchaser prepared to purchase such shares on the given date.

The Commissioners

The officials of the Estate Duty Office, on whom the Commissioners depend for arriving at a price for unquoted shares, are civil servants with a legal rather than an accountancy background. The 'examiners' with legal qualifications have acquired considerable knowledge of commerce and industry and are experts in analysing balance sheets and accounts. A card index is kept of every company whose shares are investigated for this purpose to reduce the chance of inconsistency between two valuations which may occur within a short space of time. This does not mean, however, that arguments put forward by an accountant in the second case will be ignored; any further information relative to the valuation must be considered, even if the effect is to upset the valuation which had been based on the information obtained on the first death.

It cannot be too strongly emphasized that a share valuation for probate purposes should never be regarded as a matter of so little consequence that it may be left in the hands of the secretary or the solicitor to settle the figure. The accountant should not hesitate to point out the danger of such a practice. Knowledge of the letter of the law is not enough. It is in the interests of the company that its shares should be valued by an accountant having the necessary knowledge and experience of financial and business affairs and of Estate Duty Office procedure. If an accountant has not dealt with the valuation it may be that in the event of a second death the accountant dealing with it on that occasion may have to begin by advancing arguments designed to refute a valuation already accepted on the first death. No matter how small may be the shareholding to be valued, a proper valuation should be agreed so as to avoid creating an awkward precedent. The accountant may be informed that a formula has been agreed with regard to the share valuation. In one case no less than ten deaths had occurred within twelve months but the accountant for the executors of the next death refused to accept the formula and substituted his own valuation, which was subsequently accepted.

Although, of course, the figure work in connexion with the valuation of shares is essentially the responsibility of the accountant, the provisions of the death duty sections of the Finance Act, 1940, are so complex that the accountant should always consult the legal advisers to the estate on any question of interpretation of the law.

It is understood that the examiner invariably consults some investment index such as the Actuaries' Investment Index, to determine how public companies in the same industry were faring, what yields might be expected, and whether they were rising or falling.

[1] Over or under £10,000. Finance Act, 1894, Section 10.

A paper presented on October 11th, 1951, at the twentieth autumnal meeting of The Institute of Chartered Accountants in England and Wales.

The Actuaries' Investment Index is issued monthly to subscribers and gives price indexes and average yields of most kinds of investment. The indexes for ordinary shares are given in fourteen groups compiled from 139 companies whose shares are quoted in the London Daily Official List and whose market capitalization of equity shares exceeds £2 million.

As a rough guide in a particular industry consultation of this index may have some merit but it is obvious that a comparison with individual stock exchange quotations is not reliable for the probate valuation of an unquoted share. The views of the Council of the London Stock Exchange are entitled to respect:

> 'The Stock Exchange may be likened to a scientific recording instrument which registers, not its own actions and opinions, but the actions and opinions of private and institutional investors all over the country and, indeed, the world. These actions and opinions are the result of hope, fear, guesswork, intelligent or otherwise, good or bad inevstment policy, and many other considerations. The quotations that result definitely do not represent a valuation of a company by reference to its assets and its earning potential.'

The accounts of the company are then examined. The larger the shareholding in relation to the whole, the greater the emphasis placed on assets, which assume supreme importance in a valuation under Section 55, Finance Act, 1940. For the smaller shareholding the asset backing is almost ignored and greater attention is paid to profits and dividends. Subsequent 'observations' by the Estate Duty Office will usually suggest that there is room for negotiation, but the accountant may find that although the Estate Duty Office reject his valuation they are reluctant to give a positive alternative figure. If agreement cannot be achieved in correspondence, the accountant should seek an interview at which he may expand his arguments, for in most cases the examiner will listen with sympathy and interest to the more detailed picture the accountant can present in person.

The Hypothetical Purchaser

By definition all private companies have clauses in their articles restricting the right of transfer of shares – for example, that any shares to be sold must be offered to the restricted market made up of the existing shareholders; or that the shares shall be sold at 'the fair value' certified by the auditor or defined to give a certain yield; or at the asset value shown by the balance sheet or at the value fixed by the members in general meeting. If the articles could restrict the value so that estate duty would be reduced, one imagines that articles would often be drawn up with the sole purpose of saving death duties. However, it was decided by a narrow majority in the House of Lords that an open market must be assumed. The Lord Chancellor said:

> 'If the view entertained by the Court of Appeal were correct, it would follow that any property which could not be sold in the open market would escape estate duty altogether. That seems to me quite an unnecessary and unnatural construction to place upon the language of the statute.'[1]

But this hypothetical market is not easy to define. As Lord Ashbourne put it, 'A feat of imagination has to be performed'. There is, however, an important proviso that the hypothetical purchaser would be himself subject to the restrictions in the articles. He would pay for the right to stand in the deceased's shoes 'with good title to get into them and to remain in them'. Lord Fleming regarded these restrictions as depreciating the value 'very considerably'. Nobody except a person who was prepared to have his capital locked up for many years, could afford to buy at more than par value.[2] The opposite result, of having future opportunities of purchasing shares at the restricted price, has never been regarded as having any appreciatory effect. It is important to note that even 'an open market' has restrictions. Mr Justice Finlay rejected the suggestion that the value should be increased because a trust company would be prepared to pay an increased price. In the House of Lords the Lord Chancellor supported this view but disagreed with the reasoning of Mr Justice Finlay, who excluded trust companies from the possible buyers becuase the directors would not have consented to put them upon the register. The Lord Chancellor said, however:

> 'I do not think that it would be right to appreciate the value of the shares because of this special demand for a special purpose from a particular buyer.'[1]

This hypothetical purchaser has quite human attributes. Mr Justice Rowlatt pictured him as saying to himself:

> 'Well, I may be met with difficulties. . . . Lawyers tell me that I possibly might be able to compel a winding-up. There are cases upon it, and all the rest of it, but I do not know how that may be.'[3]

It is clear, therefore, that the value, however complicated the calculation, must be one which the normal individual with money to invest must feel is reasonable.

> 'It must be assumed that the transaction takes place between a willing seller and a willing purchaser; and that the purchaser is a person of reasonable prudence who has informed himself with regard to all the relevant facts; and also that he has access to the accounts of the business for a number of years.'[4]

The Accountant

The accountant is in a curious position in that he knows more of the affairs of the company than the Commissioners, and even more than the hypothetical purchaser. He probably has personal knowledge of the directors, employees and customers, denied to outsiders, which may be embarrassing in preparing a

[1] *In re Crossman* ([1936] 15 A.T.C. 94).
[2] *Salvesen's Trustees v. C.I.R.* ([1930] 9 A.T.C. 43).
[3] *In re Courthorpe* ([1928] 7 A.T.C. 538).
[4] *Findlay's Trustees v. C.I.R.* ([1943] 22 A.T.C. 437).

valuation. He would hardly be human if he ignored any depreciatory factor which a hypothetical purchaser might have little means of discovering. At the same time he is likely to discount possible advantages of which the hypothetical purchaser may be unaware. Mr P. M. Rees, F.C.A., in discussing the principle that accounts should be informative, has said:

> 'As regards the shareholders – present and future – it must, of course, be realized that only a very small proportion know much about accounts. The aim, therefore, should be to tell them a few essential facts in the simplest possible manner, leaving their professional advisers to examine these facts in the light of the more detailed information given in the accounts and schedules.'[1]

At the present time the amount of information available to the accountant acting for the hypothetical purchaser varies considerably from company to company. *The Times*,[2] in an article headed 'Information for Shareholders', said:

> 'Doubtless the question of the amount and form of information which directors should give to shareholders may never be solved to everybody's satisfaction. Sometimes there seems to be almost a sense of conflict between the strict duty of giving audited accounts of stewardship and the wider aim of giving information that is not so much an account of the past as an effort to enable shareholders to judge the present fortunes and future prospects of their property.'

It is unlikely that such information will include details of the company's turnover and whether that turnover is widely spread; or whether the relationship with the staff and employees is good. It is certain that, for instance, fears of future competition or the dangers of doubtful patents will not be revealed. All this and more may be known to the accountant, but the hypothetical purchaser would have difficulty in obtaining such information, which for anything short of a controlling interest would probably be refused.

The Deceased

Accountants are fully aware of the arguments which are usually employed if the deceased had been a director. The Estate Duty Office must have a highly coloured view of the administrative capacity of British industry as whenever a director dies it is made to appear to them that the company is likely to suffer a prolonged period of falling profits even if it avoids liquidation. It is perfectly proper to advance these views and to take them into consideration in valuing shares for probate purposes, as the death of a director, even of one who has retired from a full-time executive office, must frequently have an adverse effect on the company's future prospects. In any case the hypothetical purchaser must be allowed to assume that this may be the case, provided, as the Finance Act, 1910, Section 60, states, that it is proved to the Commissioners that the value of the property has been depreciated by reason of the death of the deceased.

Accountants have every opportunity of realizing that success in industry depends as much on good direction and administration as on valuable assets, faithful customers or good fortune. Nelson's observation, 'The strength of a fleet is not in its ships but in its men', may be freely paraphrased, 'The strength of a company is not in its assets but in its directors'. If the argument is pressed too far, however, the Commissioners may well suggest that some evidence should be produced, such as accounts for a period ending after death showing depreciation. Unfortunately they have some authority for such a request as Lord Fleming in giving judgment said:

> 'I quite recognize that the problem I have to deal with must be solved in the light of the information available at or about the time of the testator's death, but I think that, however, does not debar me completely from making any reference to the balance sheet at July 31st, 1927.'[3]

– a date ten months after death. It would be foolish to dispute the observations of a judge, although Lord Fleming himself did not seem too sure of his ground. The circumstances of that case were exceptional – the highly speculative industry of whaling, where profits were ploughed back for further speculative voyages. In a normal case it is difficult to see how an intending purchaser buying at a certain date could expect to wait for accounts made up to a later date. It is suggested that the Commissioners should not be influenced by information not available at the time of the hypothetical sale.

Matters to be Considered

Before arriving at a valuation based on a perusal of the accounts of the company, an accountant will satisfy himself on a number of points which his experience will indicate, but it is perhaps as well to enumerate those matters upon which there is judicial authority for investigation:

(1) History of the industry.
(2) History of the company.
(3) Prospects of the industry.
(4) Yield on quoted shares in the industry.
(5) Prospects of the company.
(6) The profit-earning capacity of the company.
(7) The risks which are involved.
(8) The return of the purchaser's investment.
(9) The general solvency of the company.
(10) The extent of the security in the form of tangible assets.
(11) The basis of the value of the assets.
(12) The amount of liabilities.
(13) The nature of the management.
(14) The object of the company.
(15) The methods of business.
(16) The restriction upon the transfer of shares.

Dividends and Profits

It has frequently been observed that in studying the accounts of a business the profit and loss account is

[1] *The Accountant*, December 12th, 1949.
[2] *The Times*, May 25th, 1951.
[3] *Salvesen's Trustees v. C.I.R.* ([1930] 9 A.T.C. 43).

of more importance than the balance sheet. The current profit-earning capacity of a share is the most important element in estimating its value and this would be most prominent in the mind of a purchaser.

The Commissioners usually ask for copies of the accounts and directors' reports for the last three years. It is hardly necessary to remind accountants that accounts of past periods, whether for three, five or fifteen years, have no merit in themselves; they can only be of service as a guide to probable future profits or dividends. A dispute about a stock reserve in adjusting past profits was put in its proper perspective by an Australian judge who said that its only importance was to indicate that the directors were adopting a conservative policy to enable the company to pay a steady dividend; he was not ascertaining taxable income and was only considering past profits as a guide to the probable future prospects of the business.

Past profits must sometimes be adjusted, however, if they are to be a guide for the future. In a recent case the profits for the three years prior to death were abnormally large owing to profits on purchase and sale of Government surplus goods. As another instance it would be necessary to adjust accounts for a change in the rate of profits tax.

In the private family company the dividends paid may have been negligible, the bulk of the profits having been paid away as management remuneration. In such a case an attempt must be made to substitute reasonable remuneration but this remuneration may be for 'special knowledge, personal relationship with customers and constant daily attention'. The hypothetical purchaser:

> 'would recognize the value of these factors and make due allowance for much more than the ordinary remuneration'.[1]

The reverse position may arise if, for instance, in the accounts of a subsidiary company, whose shares have to be valued, the management charge by the parent company has been inadequate.

It is unlikely where there are minority interests that the directors' remuneration is unreasonable. Directors and accountants are aware of Section 210 of the Companies Act, 1948, which gave minority shareholders the right to apply to the Court in certain circumstances. However remote this possibility may be, it is probable that directors do, and they certainly should, keep in mind that they must not ignore the just rights of shareholders who are not directors. If there are service agreements with the directors, the Court would be reluctant to interfere and the hypothetical purchaser cannot put himself in a better position than the existing shareholders.

Greater attention should be paid to dividends than profits. In these days when industry is trying to finance the replacement of its assets at ever-increasing prices and the Chancellor is putting every obstacle in the way of large distributions, little complaint can be made if the dividend represents only a modest share of the profits. The Commissioners are usually prepared to disregard the profits and base their valuations on dividends if there has been any semblance of a dividend policy. But if after charging reasonable remuneration the dividends have little or no relationship to earnings, dividends as a method of share valuation must be abandoned. In *Salvesen's Trustees v. Commissioners of Inland Revenue* (1930), the circumstances were exceptional; the average annual profits amounted to 164 per cent and the dividends to 24 per cent of the issued capital. It is not surprising that Lord Fleming should declare that:

> 'these figures suggest to me very strongly that it would be quite fallacious to value these shares on the basis of the dividends paid and without regard to the amount of the profits earned but not distributed'.

In valuing shares on an earnings or dividend basis accountants should be aware of the relatively large yield that a seller is compelled to offer to effect a 'placing'. Recent examples of placings suggest that dividend yields of 10 per cent are by no means uncommon, and as these placings are conditional on an introduction to the market it can fairly be argued that the yield in a company whose shares are not quoted should be considerably greater owing to a purchaser's difficulties in disposing of such shares. It should also be noted that the seller will not receive the price paid by the buyer on the Stock Exchange.

The following statement shows the high yields of the last five introductions to the Birmingham Stock Exchange made by an issuing house. It also shows that the dividend yield is only about half the anticipated earnings yield.

Ordinary share introductions on the Birmingham Stock Exchange 1950–51

		At the placing price		
Date of placing	*Business*	*Market value of ordinary share capital* £	*Earnings yield (gross)* %	*Dividend yield (gross)* %
1. March 1950	Metal smallwares manufacturers	106,875	24·8	12½
2. May 1950	Firebrick manufacturers	145,835	23·3	12
3. November 1950	Rust-proofers	212,500	21·5	11¾
4. January 1951	Earth moving equipment manufacturers	212,500	24·0	10½
5. March 1951	Electrical switchgear manufacturers	175,000	20·1	10¾

Note:

(*a*) The earnings yield is calculated after profits tax at rate on undistributed profits, i.e. 10 per cent, and based on prospectus estimates of profits for the current year.

(*b*) The issued capital of each of the above companies consists entirely of fully-paid ordinary shares of 1*s* each with the exception of No. 3 which has, in addition, 14,400 7 per cent preference shares of £1 each, fully paid.

Asset Value

Except in cases where shares have to be valued under Section 55 of the Finance Act, 1940, a valuation on an asset basis is unusual although the Commissioners often seek a valuation which is a combination of profits and asset backing. Lord Fleming, in *M'Connel's*

[1] *Smyth v. C.I.R.* ([1931] I.R. 643).

Trustees v. Commissioners of Inland Revenue, said:

> 'In my opinion it is a mistake to suppose that the value of a share in a company is to be ascertained with reference merely to the income which it yields, and without any regard to its capital value.'[1]

This, however, was an exceptional case where the deceased owned 998 out of 1,000 shares and the company never had any prospect of earning profits.

The method sometimes suggested by the Commissioners for a holding of from, say, 30 per cent to 50 per cent of the equity capital is to take the book value of the tangible assets and add a calculated figure for goodwill. After deducting, say, $7\frac{1}{2}$ per cent of the tangible assets from the anticipated profit the balance of profit multiplied by, say, three years' purchase gives a figure for this goodwill. Owing to varying methods of providing for depreciation of fixed assets, and the varying dates and price levels at which these assets have been acquired, it is quite impossible to fix any standard rates or number of years' purchase. In fact, it is submitted, a hypothetical purchaser, having satisfied himself that the company is sound in other respects, will pay very little attention to the asset position and will only consider the earnings and dividends.

It is of interest to see how such a method of valuing goodwill compares with the actual goodwill in the five companies listed in the statement on page 424, all of which are in very much the same class. In no company have the fixed assets been revalued for the 'offer'; in the advertisement they are all given at their normal written-down values.

	Difference between market value of ordinary share capital and tangible assets, i.e. goodwill	*Number of years' purchase of super-profits after deducting $7\frac{1}{2}$ per cent on tangible assets*
	£	
Company No. 1	18,928	1
Company No. 2	5,804	$\frac{1}{4}$
Company No. 3	122,036	$3\frac{1}{2}$
Company No. 4	75,921	2
Company No. 5	44,284	$1\frac{3}{4}$

The wide variations in the last column suggest that any valuation based on super-profits is unreliable.

Asset values are, however, relevant in cases where there are no profits or dividends. These cases present great difficulty as very often the assets indicate a positive and even substantial value, but what hypothetical purchaser of such shares is prepared to purchase a minority holding? Any attempt by the Commissioners to suggest that he would be interested in a liquidation value should be resisted as a minority shareholder has no means of forcing a liquidation, which indeed needs a 75 per cent majority. It is probable in such cases that the liquidation value of the assets cannot be completely ignored but a theoretical liquidation may give rise to a theoretical distribution charge for profits tax. It is of interest that when Mr Justice Rowlatt was considering a liquidation valuation he suggested that a hypothetical purchaser would require a profit of, say, 50 per cent if the company were to be wound up.[2]

[1] ([1927] 6 A.T.C. 469).

[2] *In re Courthorpe* ([1928] 7 A.T.C. 538).

Finance Act, 1940, Section 55

If at any time within the five years before the date of death the deceased had control of the company,[3] the method of valuation is by reference to the net assets of the company. This question of control is so important that accountants should study the definition with care, as the word 'control' has a special and unusual definition in this context. For instance, a 50 per cent holding, not 51 per cent, gives control; a governing director is almost certain to have control under these sections even if he owns no shares, as he would probably have power to nominate, or veto the appointment of, directors.

If there have been gifts of shares *inter vivos*, these will also have to be valued on an assets basis with the important proviso that if the shares at the time of the gift valued at a 'fair' price did not exceed £500 they avoid duty, assuming that the beneficiary has received no other gifts.[4] Similarly, if the testator had sold shares within the five years preceding death, duty is only payable on the difference between the sale price and the 'fair' price at the date of sale, again assuming that this, together with any other gift *inter vivos*, is greater than £500.

In arriving at a share valuation based on assets no great difficulties would normally arise if it were not for Section 59, which specifically states: 'Assets include goodwill'. There has been no judicial guidance on valuing such goodwill so that accountants and the Estate Duty Office have evidently decided to compromise rather than to risk an appeal to the Court.

It should be noted that as the value of the tangible assets increases so the super-profit, on which the goodwill depends, decreases, so that in fact there may be no goodwill at all. Mr Justice Sankey, in considering the 1894 Act, laid down that:

> 'the principal value of property means the price which the property would have fetched on the death of the deceased in the open market if it had then been sold in such a manner and subject to such conditions as might reasonably be calculated to obtain for the vendor the best price for the property.'[5]

The Commissioners argue that for the purpose of Section 55 the value of a company's assets cannot be less than the best price which could be obtained for the tangible assets, but might be more than the tangible assets if any goodwill exists. The accountant may argue that the fact of having to value the tangible assets on a 'going concern' basis will automatically include goodwill. This argument is invariably resisted; it is probable that the argument is only partially true. They are 'live' assets and not 'dead' ones, and as such must necessarily include some element of goodwill.

It is dangerous to quote any particular case as it would be impossible to give all the facts. However, to indicate how a compromise may ultimately be

[3] For definition of 'company', see Sections 58 and 59, Finance Act, 1940.

[4] Finance Act, 1949, Section 33.

[5] *Ellesmere v. C.I.R.* ([1918] 119 L.T. 568).

reached the following summary of an actual case may be of interest:

The company had made pre-war profits of some £8,500. After paying excess profits tax the agreed profit for purposes of the valuation was £18,400. The value of the tangible assets was agreed at £100,000, representing an increase of some 40 per cent over book values. The Commissioners calculated that the tangible assets should earn 5 per cent, i.e. £5,000, and they then capitalised the super-profits (£13,400) at three years' purchase, i.e. £40,000, which they said represented a modest value of the goodwill. It should be noted that the profits of £18,400 represented a yield of about 13 per cent on the total asset value of £140,000. The accountants argued that if there were any goodwill it had already been allowed for in writing-up the fixed assets. They were prepared to include a token figure of £5,000. After an exchange of pleasantries continuing for several years (which came near to an appeal) a compromise was agreed at a figure of £20,000.

Liabilities

Difficulties may arise, in an asset valuation, in deciding what items should be considered for deductions. Finance Act, 1940, Section 50, states:

> 'the Commissioners shall make an allowance . . . for all liabilities of the company (computed as regards liabilities which have not matured at the date of death, by reference to the value thereof at that date, and as regards contingent liabilities, by reference to such estimation as appears to the Commissioners to be reasonable) other than – (*b*) liabilities incurred otherwise than for the purpose of the business of the company wholly and exclusively.'

The terms 'liabilities', 'provisions' and 'reserves' are technical terms and should assist, but there are always borderline liabilities which present difficulties. Fortunately the debatable question of 'future taxation' has come before the Courts. In arriving at the asset values no deduction may be made in respect of income-tax for the year following the death, although that liability is based on profits earned before death. In *Re Duffy*[1] the testator died on June 24th, 1942, and the Commissioners had made allowance for the whole of the 1942–43 Schedule D liability. The claim for an allowance for the 1943–44 liability was refused. There is no judicial authority for an allowance of the whole of the current year's tax but it is customary to concede this.

It is sometimes difficult to determine whether a vague 'pension reserve' should be deducted. While the directors may have decided against labelling this as a provision it is probable that there may be a moral obligation to pay pensions, at any rate to certain officials. The Commissioners are usually prepared to admit a deduction if the amount can be justified with even the least 'substantial accuracy'.

The possibility of a liability for the profits tax distribution charge is sometimes overlooked. Public companies have, on the whole, omitted reference to the ever-increasing amount involved, but the Finance Act, 1951, Section 31, reminds accountants that if accumulated profits are capitalized by way of bonus shares the possible liability still exists. The following note appearing in a recent set of accounts is of interest:

> 'Provisions for taxation do not include additional profits tax which would be payable in the event of a subsequent distribution of retained profits and which would amount to approximately £250,000 before providing for such income-tax relief as may be obtainable thereon.'

The chairman, Mr W. L. Barrows, F.C.A., in the directors' report commenting on this note, says:

> 'Public companies do not as a rule disclose this information, but it is felt that a true and fair view of the position of this group is not disclosed unless reference is made to this contingency.'

Profits Tax and Capital Structure

In cases where the company has a large preference capital in relation to ordinary capital the incidence of profits tax has a considerable depreciatory effect on the value of ordinary shares, and for probate purposes must be emphasized. The Institute's memorandum for the Royal Commission on the Taxation of Profits and Income refers to this point:

> 'Dividends paid to preference shareholders are not allowed as a deduction in computing the amount on which profits tax is chargeable. . . . Accordingly, the whole burden of the tax falls on the . . . ordinary shareholders. If, therefore, the amount of preference capital is high in relation to ordinary capital, or if the amount of the preference dividend is high in relation to the total profits, the effective combined charge of profits tax and income-tax on the remaining profits must exceed 10*s* 7*d* and in extreme cases could exceed 20*s* in the £.'

Finance Act, 1940, Section 46

It is not possible in this paper to examine this complicated piece of legislation in detail; nor is it necessary. As, however, it refers to a transfer 'at any time' of any property, for instance a sale of a business to a limited company, however long ago this may have taken place, there is a continuing contingent liability for ultimate death duties. This in itself would not affect share valuations, but if there is a liability under this section it is payable by the company.[2] Although the Inland Revenue have officially stated that they would apply the statutory provisions 'in a reasonable manner' several accountants have seriously considered whether reference to a contingent liability should be made on the annual balance sheet. It is significant that in 'offers for sale' the issuing house usually demands indemnity against possible liability under Section 46. The depreciatory effect of such a contingent liability should be considered in a probate valuation where there has been a transfer of property to a company with a reservation of benefits in favour

[1] ([1948] 27 A.T.C. 324).

[2] Finance Act, 1940, Section 54.

of the vendor. It may be said, however, that there is a danger in suggesting to the Commissioners that there may be a liability under Section 46 as it is only the Commissioners who are likely to institute proceedings under this section.

Marginal Relief

Many accountants must reach the stage when time and the pressure of the beneficiaries suggest a compromise over a valuation. Before agreeing to any increase in the valuation it is of importance to consider the question of marginal relief.

An estate of £60,000 pays duty at 35 per cent, i.e. £21,000.

An estate of £65,000 pays duty at 40 per cent, i.e. £26,000.

Owing to marginal relief between £60,000 and £65,000 any amount reducing an estate from £65,000 to £60,000 saves duty not at 40 per cent but at 100 per cent.

Conclusion

It is impossible in a short paper to give examples of the many different methods of arriving at valuations for probate purposes. The numerous items which must be taken into consideration cannot be calculated on a 'points' basis; each factor is given due weight and in the end the accountant decides his basis and arrives at his valuation. It will not be easy for him to give all his reasonings as to why that figure is in his opinion correct. As an Irish judge puts it:

> 'On some of these elements persons accustomed to value can place a relevant figure, but the test for some of the others is merely general business experience.'

It is the privilege of accountants to live in the atmosphere of their clients' financial affairs and with their experience they can be relied on to arrive at a reasonable valuation. Once they have come to their decision they should resist attempts to upset the valuation. It is the duty of the Commissioners to put counter-arguments but accountants who are in possession of all the facts will usually be on more certain ground, and their arguments will usually succeed and prevent duty being paid on valuations which are unrealistic. It is a measure of their success that there is such a negligible amount of case-law on the subject to be studied by anyone attempting to address an autumnal conference of chartered accountants.

DISCUSSION

Opening the discussion, Mr T. Fleming Birch, F.C.A. (Haywards Heath), said in the course of his remarks:

We have all listened with great interest to the two speakers, and I am sure that what they have told us will be of considerable help and valuable guidance to those of us not fully experienced in the valuation of holdings in private companies.

The remarks I propose to make will be mainly concerned with valuations for probate. I had hoped that Mr Hamilton Baynes would have been able to give us a tip as to how we could cut down the time taken in the lengthy negotiations with the Estate Duty Office. I am sorry to learn that he is not able to give us much help in this connexion; in fact, he feels the time may in future be extended. The speakers have given us a very clear exposition of the technique, and it seems to me that if they could only get the Estate Duty Office to subscribe to the methods put forward, the time taken in negotiations would be cut down. It is quite clear that on occasions, rightly impatient beneficiaries favour a compromise which may not always be the correct figure.

Referring to the suggestion that cases for appeals should be settled by a tribunal,[1] and that the Institute do not consider such a change desirable, I would strongly support this view.

Mr A. S. H. Dicker, M.B.E., F.C.A. (Norwich), said:

Both speakers and Mr Fleming Birch have touched upon a certain state of affairs which to my mind is liable to create disturbing thoughts in the minds of many accountants, especially those whose practical experience in these matters is limited to a few occasional cases. I refer to the implication that negotiations which are protracted by design are for the ultimate benefit of the estate, and conversely that too early a settlement might be prejudicial to the estate. Since the very heavy increase in death duties has assumed such importance it is natural that negotiators have had to go slowly and most carefully, examining to the smallest detail every condition which offered prospect for relief, and it is appreciated that the consequent arguments and counter-arguments have necessarily involved a protracted period of negotiation before a satisfactory settlement could be made.

It is apparent from the two excellent papers we have heard today, and from other publications, that during this process a number of practitioners have acquired considerable experience in these matters and can rightly be regarded as specialists and experts.

I am suggesting that the time has now arrived when this period of exploration is over, and that with the knowledge which has been acquired by these experts and the examiners of the Estate Duty Office, it should be possible to draw up some code or set of formulae on the basis of which settlements could be more speedily obtained, such information being readily available to all negotiators.

To put my thoughts in question form:

(1) Is it necessary and desirable in present conditions that a 'delaying' or 'wearing down' policy should be regarded as the best practice?

(2) Is a continuance of such practice strictly in accordance with the high ethical standards of our profession?

(3) Is it considered that a material benefit would result if some form of 'expert opinion' were constituted, readily available to accountants?

[1] See page 421.

WEEKLY NOTES

The General Election: Accountant Members of Parliament

All but one of the results of the general election have now been announced. Polling in one constituency in the North of England has still to take place. With this result to come, the state of the parties is as follows:

Conservatives and Associates	321
Labour	294
Liberal	6
Others	3
	624

The Government majority over all others is therefore 18.

There are five accountant Members of Parliament in the new House, each of whom represented their constituencies in the last Parliament. They are: Commander T. D. Galbraith, C.A., senior partner in the firm of Messrs Walter & W. B. Galbraith, chartered accountants, of Glasgow, Conservative Member for the Pollok Division of Glasgow; Sir J. Stanley Holmes, F.C.A., senior partner, Messrs Stanley Holmes & Co, chartered accountants, of London and Bristol, National Liberal Member for Harwich; Mr Roland Jennings, F.C.A., senior partner, Messrs Roland Jennings & Co, chartered accountants, of London and Sunderland, Conservative and Liberal Member for Hallam, Sheffield; Mr A. E. Marples, A.S.A.A., director of a firm of civil engineering contractors, Conservative Member for Wallasey, and Mr G. P. Stevens, F.C.A., a partner in the firm of Messrs Pannell, Crewdson & Hardy, chartered accountants, of London, who is Conservative Member for the Langstone Division of Portsmouth.

Mr John Diamond, F.C.A., who was previously Labour Member of Parliament for the Blackley Division of Manchester, this time failed to secure a majority, as did the sixteen new candidates, who are members of the profession, mentioned in these columns in our issue of October 20th.

Two More Productivity Reports

Two more productivity reports from teams who have visited the United States under the auspices of the Anglo-American Council on Productivity were published on Thursday.[1] That of the footwear team is a thick volume of over 200 pages, the largest so far in the series, and constitutes a veritable handbook to the boot and shoe industry. Among the team's interesting findings is the fact that no less than 95 per cent of the shoe operatives in America are on some form of incentive payment as compared with about 50 per cent in this country. It was noted also that, as might be expected, great emphasis is laid on good planning, the reward being a higher output than is generally obtained in this country. As a result of their observations, based on visits to seventeen representative factories, the team recommends, *inter alia*, that manufacturers in Britain should try to reduce the number of styles, that consumer demand should be directed towards a simpler range of product, partly by sales technique and partly by ensuring that special or non-standard orders are properly costed and priced accordingly, and that methods of shoe construction in any one factory, or in separate sections of a factory, should be standardized as far as possible. It is comforting to note that while the team agrees that productivity in the American shoe industry is higher than here, it adds:

> 'There are many aspects of shoe manufacturing in which we are confident that we are unequalled, and and on certain matters we are of the opinion that the American shoe industry might well benefit from our example and experience.'

The report of the team sent over to America to study problems of training young people and adults to become efficient operatives in industry is a slender volume, as productivity reports go, but its interest is in inverse ratio to its size. The whole system of vocational education, so highly developed in America, is fully discussed and while the team found that the methods of training do not differ much from those in this country, there was an air of encouraging vitality and enthusiasm among the trainees, eager to participate, at the end of their period of instruction, in the prosperity which springs from hard work and ample opportunity.

[1] Footwear Productivity Team Report (10s post free) and Training of Operatives Productivity Report (3s post free), from the Anglo-American Council on Productivity, 21 Tothill Street, London, SW1.

Coal Stocks Below Target

This week sees the beginning of 'coal winter'. It had been hoped that there would be 18 million tons of coal in reserve to carry the country over the next six months, when consumption is in excess of supply. This was the figure officially put out as necessary to cover all contingencies about the weather, increases of consumption and falls in production, to ensure that there was no lack of coal for industry and for domestic consumption.

In the event it is likely that the final published stock figure will be around 17 million tons. This will give a position which is better than last year but worse than was hoped for. The main cause of anxiety is in the stock position of the larger grades of coal. These are wanted for the railways, gas-works, and for domestic consumption. There is an obscure factor in the case of domestic supplies, since it is not possible to say exactly how far the domestic consumer is safeguarded by having stocked up during the summer months while prices were reduced to encourage him to do so.

Altogether, the stock position is not very critical but there is no margin for contingencies.

Record Shipbuilding Activity

Shipping under construction in British yards is now higher than at any time since 1921. The industry's order book stands at something like 6¼ million tons, valued at £550 million. About two-thirds of this has still to be laid down and some one-third of it is for export.

Tanker tonnage is still an outstanding feature of the figures, accounting for more than half the total, but there are signs that orders of other classes of merchant tonnage are on the increase. This is not surprising, for many shipowners must now be faced with an urgent replacement problem for obsolescent tonnage, a problem which fortunately is not as intractable as it was at this time last year. Since then costs have failed to decline but there has been a most spectacular rise in freights, which has raised the prospects of high-cost tonnage paying its way – provided there is no return to the level of freight rates ruling in 1950.

Guessing the long-term trend of freight rates may not be a profitable occupation, but it is likely that the current firmness in the market has persuaded some of those who were undecided about investing in new ships, to place an order.

In addition, of course, to merchant tonnage, the ship-yards are doing an increased amount of Admiralty work.

Restlessness in the Sterling Area

There are increasing signs that the weakness of this country's balance of payments position is setting up a serious strain among the members of the sterling area. The willingness in the recent past of members of the sterling area to accumulate large sterling reserves in this country – larger than could be necessary either to meet short-term liabilities or for currency reserves – has been a principal reason for the delay in the onset of a balance of payments crisis for Britain. This country has been living for some months on the willingness of the Commonwealth to amass what amounts to large balances of unconvertible sterling.

There are now signs that this patient attitude by our closest friends may not endure a great deal longer and in proportion that this is true it brings that much nearer a critical exchange position. Recently, India let it be known that it viewed with disapproval the present working of the sterling area. Likewise Ceylon has expressed a certain restlessness about this country's inability to allow Ceylon's balances to be turned into goods.

Last week there was a much more serious development when Sir Douglas Copland, Vice-Chancellor of Canberra University, and one whose views are known to influence the Australian Government, came forward with a plan to make Australia self-supporting in dollars. The object of the scheme would be for Australia to have direct access to the dollar area in matters of exchange and in this way be more able to stimulate the flow of dollar capital into Australia. The case, which is to a large extent statistical and revolves round the external trade position of Australia, cannot be set out here, but it reflects to some extent the current Australian optimism about its future, which is in turn based on the present high prices of wool and meat.

All these moves are being carried out with the decorum which usually attends an exchange of opinions between members of the family and their associates. But, as we outlined in a leading article last week, the signs of restlessness are exceedingly serious for the sterling area, and for this country in particular.

Rubber Trends

There is some possibility that the estimates by the Rubber Study Group of the world production of natural and synthetic rubber will be exceeded. It is true that unstable conditions in Malaya have adversely affected production there, but on the other hand there is some possibility that the estimated production of natural rubber in Indonesia will be outpaced. World output of synthetic rubber is also expected to exceed the estimate even though United States production was not stepped up until towards the end of last year.

On the whole it seems likely that world consumption will not seriously diverge from estimates. What slight decline there may be is likely to come from the United States. There should, in consequence of these consumption trends, be a surplus of natural rubber for the world's stocks. It seems probable that this will be absorbed without undue difficulty by governments and by industry. The latter in particular is thought to have run down its stocks to the minimum over the earlier part of this year.

More Metal Allocations

The fourth quarter allocations of tungsten and molybdenum which were announced from Washington last week are an improvement on the third quarter's arrangements. The amounts coming under the quota arrangements have been increased – from 2,800 tons to 3,245 tons in the case of tungsten, and from 4,400 tons to 4,720 tons in the case of molybdenum. The allocations in the third quarter, which were inevitably of a stop-gap nature, concerned only metal ores and concentrates, but in the fourth quarter the arrangements cover primary products as well. This last means that an effort is being made to ration internationally these two metals in the form in which they are actually used by industry.

There is one other feature of interest in the new quota arrangements. In the previous quarter any possibility of quota arrangements clashing with long-term contract arrangements was studiously avoided. This time it has been suggested that those countries with contract supplies in excess of their quota should pass the difference on to others. This will be a development worth watching, for there are some important international commodities which are hindered from obtaining a better distribution by long-term contracts.

REVIEWS

The A.B.C. of the Foreign Exchanges
by Norman Crump

(Macmillan & Co Ltd, London. *12s 6d* net)

When the first edition of this book was issued in 1892, a knowledge of the working of the gold standard was adequate for understanding the theory of foreign exchange. By 1936, when the last edition of this book was issued, there had been considerable changes in the basis of international finance. Changes since then have been revolutionary, however, and the theory and practice of foreign exchange now constitute an extremely complicated study. In this eleventh edition, Mr Crump must be congratulated on the way he deals with a subject which, however difficult, is nevertheless fundamental to an understanding of present-day problems.

A Practical Epitome of the Death Duties
Second Edition
by David Harrison, LL.D.
Consulting Editor for Scots Law
R. A. Grieve, B.L.

(Sweet & Maxwell Ltd, London, and W. Green & Son Ltd, Edinburgh. *37s 6d* net)

This book contains 180 pages of text and about 200 pages of Statutes and Orders, so that the treatment is not so full as in larger works on this difficult subject. Within its limits, however, it does deal lucidly with most of the problems and should be of especial help to the student. The authors are both officials in the Estate Duty Office of the Inland Revenue and bring long practical experience to their difficult task.

Issue, Control and Regulation of Capital
by F. P. Randall, F.C.I.S.

(W. Heffer & Sons Ltd, Cambridge. *12s 6d* net)

This book is described as an epitome of facts, considerations, and principles covering financial matters, controls, and statutory and other regulations affecting investment capital for introduction to the new issue market. General remarks about company capital are followed by résumés of Stock Exchange and Companies Act requirements.

The Legal Aspects of Business
Second Edition
by H. R. Light, B.Sc. (Lond.), F.C.I.S.

(Sir Isaac Pitman & Sons Ltd, London. *15s* net)

The second edition of this book has been extended to include a section on wills and intestacies, and two chapters on the contract of employment and the statutory control of employment. These are not of course exhaustive but are designed to meet the syllabuses of certain professional examinations.

Dymond's Death Duties
The First Supplement to the Eleventh Edition
by Robert Dymond, Solicitor
and Reginald K. Johns, LL.B.

(The Solicitors' Law Stationery Society Ltd, London. *5s* net)

Indispensable to the owners of the main works, this supplement will be of considerable value even to others, for it deals very fully and very lucidly with the many changes in law and practice in the last nine months or so. The text of the relative provisions of the Finance Act, 1951, is of course included.

Office Organization and Management
by the late Lawrence R. Dicksee, Sir Herbert E. Blain, C.B.E., and Stanley W. Rowland, LL.B., F.C.A.
Fifteenth Edition by Donald Cousins, Professor of Accounting, Birmingham University

(Sir Isaac Pitman & Sons Ltd, London. *18s* net)

This, the fifteenth edition of what has for so many years been an authoritative handbook, maintains the high standard of earlier issues. To bring together within one volume the essentials of the many aspects of office administration, is no mean achievement; this feature, together with its readableness, makes the publication of the greatest value to business men. This new edition includes the main features of the Companies Act of 1948, together with certain other statutory changes.

This most useful book might have been made even more useful, however, if in the light of the growing interest in modern industrial accounting, the bibliography had included a few more authorities on industrial accounting.

Teach Yourself Management
by M. Gilbert Frost, A.C.C.S., M.I.W.M., M.I.P.M., A.M.I.I.A., A.C.W.A.

(The English Universities Press Ltd, London. *6s* net)

Too often the accountant or engineer occupying a senior position in industry is technically efficient but nevertheless finds himself at a disadvantage as a manager. Accountants who study Mr Frost's excellent introduction to management are less likely to fall into this category. His survey is lightly written but provides a comprehensive and practical survey within a small compass. Although Mr Frost covers all phases of management, accountants will find the two chapters on making the office efficient particularly useful, while his discussion of what a manager needs in the way of cost information should be studied and re-studied by every industrial accountant.

Cyclical Movements in the Balance of Payments

by Tse Chun Chang, Ph.D.(Cantab.)

(Cambridge University Press, London. 18s net)

In the light of Keynesian doctrine, Mr Tse Chun Chang has studied cyclical fluctuations in the balance of payments for the period 1924–38. First analysing the factors concerned on a theoretical basis, the author then tests the theory by applying it to five specific cases, viz.: the United Kingdom, the United States of America, Australia, Sweden and Chile. The choice of these countries was determined by the fact that they represent varying degrees of industrialization and self-sufficiency. Some consideration is also given to Canada which has certain special features.

The conclusions point to the all-pervading nature of the trade cycle in a relatively free world economy. The precise effect, both general and so far as the balance of trade is concerned, on any particular country depends largely on the factors peculiar to the latter.

Although the degree of planning and control in the world of today is such as to reduce the effect of cyclical fluctuations, there still exist economic phenomena of this nature which this scholarly book does much to explain.

Fundamentals of Accounting

by Harry H. Wade, B.Sc., M.A., C.P.A.

Third Edition

(Chapman & Hall Ltd, London. 38s net)

Many American introductions to accounting are so clearly and attractively written that it is unfortunate for British students that the latter can make only limited use of them. Professor Wade's text-book falls into this category and once familiar with basic theory, advanced students, under guidance, may find it helpful to read – though not perhaps to study – such a publication as this, for it does present the principles of accounting well.

As a third edition, the book includes various improvements of which the most important is the appendix giving examples of the financial statements included in annual reports to shareholders in America. From the students' point of view, principles are well illustrated, and numerous problems are set on each chapter.

Ranking, Spicer and Pegler's Executorship Law and Accounts

Eighteenth Edition

by H. A. R. J. Wilson, F.C.A., F.S.A.A.

(H.F.L. (Publishers) Ltd, London, and Sir Isaac Pitman & Sons Ltd, London. 30s net)

The outstanding feature of this new edition of a well-known text-book is the ably written chapter on trusts which forms an excellent introduction for the student to a difficult subject. For the rest, the hitherto high standard has been well maintained. The chapter on death duties is necessarily abbreviated.

Cost Accounting for the Pharmaceutical Industry

(Report of the Costing Committee appointed by The Council of the Association of British Pharmaceutical Industry)

(The Association of British Pharmaceutical Industry, London. 25s net)

This report is the result of an examination of costing practice in the pharmaceutical industry, and its object is to assist members of the trade association concerned to improve their methods of cost accounting. As a general exposition of cost accounting principles it merits careful study and the examples given of forms and of classification of accounts will be very useful, not merely to those engaged in the industry, but also more widely.

It discusses batch costing and costing of continuous processes, especially important for the pharmaceutical industry; then at greater length, standard costs, although it avoids giving any positive lead as to the cases where they are suitable and where they are not.

Motorists and the Law

by K. McFarlane, LL.D., J.P.

(Stevens & Sons Ltd, London. 5s net)

This volume, paper-backed and containing 119 pages, forms part of the publishers' 'This is the Law' series. The author leads his reader through the labyrinth of law dealing with the purchase and sale of cars, liability for accidents, and the innumerable statutory regulations affecting motorists and other road users. It forms an excellent brief guide for the layman.

Tax Conventions between The Swiss Confederation and the United States

by Dr Mitchell B. Carroll and Dr Kurt Locher

(International Bureau of Fiscal Documentation, Amsterdam. Swiss Frs. 7.20; $1.65)

Two tax conventions have recently been concluded between Switzerland and the United States, one in May on income-tax, and one in July on succession duties. About half of this booklet is occupied by a reproduction of the authentic texts in English and German; the other half is devoted to commentaries, one by an American, and one by a Swiss, which show briefly the effect of the conventions in the respective countries.

SHORTER NOTICE

THE ELECTRICITY STATUTES, ORDERS AND REGULATIONS (Second Edition), compiled by Norman Elliott. (South-Eastern Electricity Board, Hove, Sussex, £1 1s net.) The law relating to the supply of electricity is now governed by a series of statutes beginning in 1882 and a large number of Statutory Orders and Statutory Instruments, so that it is difficult to find one's way about. Here is a book which will save much time by bringing all this matter under one stout cover, in chronological order, with a seventy-two-page index that simplifies the task still further.

FINANCE AND COMMERCE

For the stock market the General Election poses just as many problems as it answers. The result is that there is not the marked display of confidence so freely predicted as the outcome of a Tory victory. The present disposition seems to be to wait until the basic plan of the new Government's economic policy is made known. At best the return of confidence must be a gradual process. Meanwhile values have reacted quite sharply from the high points reached immediately before the election.

Ely Brewery

This week's reprint gives the balance sheet of the Ely Brewery Co Ltd, whose chairman, managing director and financial director, Mr L. Nidditch, is at loggerheads with the dealers in his company's shares on the London Stock Exchange. In fact, Mr Nidditch is upset with the whole Stock Exchange dealing system as carried on in the London market. The shares, he says in his 15,000-word review with the accounts, have been 'beared most improperly', 'knocked down by the market', and 'brought down to that (low) level by market manoeuvring'. The company's financial position has been mis-stated; certain jobbers, says Mr Nidditch, have in their daily lists published incorrect information regarding the company, in that the earnings given bore no true relation to the company's official balance sheet. There has been lengthy correspondence with the chairman of the Stock Exchange Council on the subject of the business conducted in the company's shares.

Correspondence Closed

The point has been reached where the Stock Exchange chairman has closed the correspondence as serving no useful purpose, through his solicitors who concur in that opinion. And the dealers themselves, those who stand in the market place as buyers or sellers according to the way of the market, have ceased to deal in the company's shares.

In the course of his remarks on what he feels is bad Stock Exchange practice, Mr. Nidditch states that 'earnings yield has always been the base for the value of any share, whether on the Stock Exchange, private buying or selling, or by the Inland Revenue' and that the 'only basis for price fixing, if jobbers are really needed, is the balance sheet and profit and loss account'. Can one imagine a broker arguing a price in the Stock Exchange on the basis of a company's last accounts without reference to the general situation at the moment?

Whatever may be the rights and wrongs of the Ely Brewery situation, one has to realize that the Stock Exchange is a market which is influenced, like any other open market, by a wide variety of factors. Imagine, for instance, trying to sell a car to a second-hand dealer whose parking space is full of cars that hang on the market.

Other Considerations

While the situation developed at such length in the chairman's statement is not material to a consideration of the accounts as such, it does carry implications for accountants and company executives. Are they justified in standing by the accounts they produce for shareholders, as the one and only basis for the valuation of a company's shares; or should they admit that share values can be calculated with reference to other considerations?

In a private deal the accountant's estimate of the worth of a business based substantially on the accounts will be a main factor in determining share values. But in an open market, the accountant cannot have the last word. Business there is subject to all the factors which govern free markets.

In brief, it has to be recognized that there is more than one form of valuation and more than one point of view.

Investigation Report

Mr F. C. T. Lane, F.C.A., who became a director and chairman of W. E. Hughes & Co Ltd last June, deals with a report dated April 18th, 1951, submitted by Messrs Peat, Marwick, Mitchell & Co, Chartered Accountants, following an investigation initiated at the end of 1950.

The report, among other things, states that the group's net tangible assets now amount to only £132,000 as against a nominal capital of £185,000, in spite of substantial issues of shares at a premium during the period since the company was made public.

'It would appear that the situation has arisen largely as a result of the group entering the manufacturing field in widely different products without adequate technical experience and executives and by reason of the acquisition of such manufacturing interests at unjustifiably high prices'.

A note to this item states that 'the then board do not agree with these conclusions and moreover these acquisitions', it is stated, 'were supported by professional advice'.

The accountants' report states further that 'it is difficult to resist the conclusion that the management of the group has, over the last few years, failed to take adequate steps sufficiently promptly to avert the continued deterioration of the financial position'.

Money Market

The question of a possible rise in short-term interest rates to conform with the change already affected in long-term rates is the main topic of money market discussion. In four years long-term borrowing rates have widened from $2\frac{1}{2}$ to 4 per cent but there has been no material change in the short-term market. Treasury bill applications totalled £313,425,000 on October 26th, the allotment basis being 63 per cent and the rate 10*s* 2·94*d* per cent. This week's offer is £230 million and there is no deposit receipt call.

THE ELY BREWERY

Balance Sheet as

As at June 30th 1950			Authorized in Shares	Issued and Converted into Stock
£	CAPITAL:	£	£	£
345,852	5 per cent Cumulative Preference (Shares £1 Stock Units £1 each)		546,200	345,852
151,800	7 per cent Cumulative Second Preference (Shares 5s Stock Units 5s each)		151,800	151,800
552,000	Ordinary (Shares 5s Stock Units 5s each)		620,000	586,500
1,049,652			£1,318,000	1,084,152
	SHARE PREMIUM ACCOUNT			
	Balance as at June 30th, 1950		12,193	
12,193	*Less* Amount applied in the Issue of Ordinary Shares in accordance with the Ordinary Resolutions of October 12th, 1950		12,193	—
	CAPITAL RESERVE ACCOUNT			
	Properties Revaluation Reserve Balance as at June 30th, 1950		169,412	
	Less Amount applied in the Issue of Ordinary Shares as Bonus Shares in accordance with the Ordinary Resolutions of October 12th, 1950	22,307		
	Expenses of Bonus Issue and Increase in Authorized Share Capital	633	22,940	
169,412				146,472
	REALIZED CAPITAL GAINS ACCOUNT			
	Balance as at June 30th, 1950		37,807	
	Add Amount transferred from Staff Pension Fund being the amount allocated to that Fund from this Account at March 31st, 1948		10,000	
			47,807	
	Less 1¼ per cent Distribution proposed now to be paid		7,331	
37,807				40,476
	REVENUE RESERVES AND SURPLUS			
72,893	Profit and Loss Appropriation Account		36,505	
48,000	Dividend Equalization Reserve as at June 30th, 1950		48,000	
	Reserve Fund as at June 30th, 1950	192,656		
192,656	*Add* Amount transferred from Profit and Loss Appropriation Account..	40,000	232,656	317,161
1,582,613				1,588,261
	4 PER CENT FIRST MORTGAGE DEBENTURE STOCK			
	Secured by Trust Deed dated November 25th, 1946..		850,000	
	Less Redeemed to date and not re-issuable:			
	To June 30th, 1950, as last Balance Sheet	226,050		
	Year ended June 30th, 1951	20,667	246,717	
623,950				603,283
	PROVISIONS			
	Deferred Furnishings as at June 30th, 1950	3,846		
3,846	*Less* Amount expended to June 30th, 1951	3,846	—	
	Advertising as at June 30th, 1950	10,000		
10,000	*Less* Amount transferred to Profit and Loss Account	7,000	3,000	
	Staff Pension Fund as at June 30th, 1950	24,000		
	Amount added to June 30th, 1951	13,672		
		37,672		
	Less Amount expended to June 30th, 1951	2,172		
		35,500		
24,000	*Less* Amount re-transferred to Realized Capital Gains Account (as above)	10,000	25,500	
	Leaseholds Amortisation as at June 30th, 1950	18,250		
18,250	Amount added to June 30th, 1951	8,000	26,250	54,750
	CURRENT LIABILITIES			
164,949	Sundry Creditors and accrued liabilities		142,707	
52,000	Provision for Excess Profits Tax, Profits Tax and Income Tax of past years	68,500		
26,000	Provision for Profits Tax for the Year ended June 30th, 1951	42,000		
62,000	Reserve for Income Tax 1951–52 based on the period ended June 30th, 1950	63,000	173,500	
	Unclaimed Dividends, Debenture Stock, Interest, etc.:			
	Cash at Bank (as *per contra*)	3,238		
4,475	Other	1,040	4,278	
4,756	5 per cent Cumulative Preference Stock Dividend for the six months ended June 30th, 1951 (less Income Tax), paid July 1st, 1951		4,539	
—	Proposed Final Dividend on the Ordinary Stock of 3½ per cent (less Income Tax)	11,547		
—	Proposed Tax Free Distribution of 1¼ per cent to be paid with the Final Dividend	7,331	18,878	343,902
£2,576,839				£2,590,196

COMPANY LIMITED
at June 30th, 1951

As at June 30th 1950 £		£	£	£
	FIXED ASSETS			
109,272	Goodwill now applicable to 'Free' Trade			109,272
	Freehold Properties including Fixtures, as valued (*)		1,121,933	
	Additions since, at cost, less Sales:			
	To June 30th, 1950, as last Balance Sheet	128,056		
	Year ended June 30th, 1951	11,845	139,901	
			1,261,834	
	Transfer from Leasehold Properties – book values of leaseholds the freehold reversions of which have since been acquired:			
	To June 30th, 1950, as last Balance Sheet	181,172		
	Year ended June 30th, 1951	16,450	197,622	
1,431,161				1,459,456
	Leasehold Properties including Fixtures, as valued (*)		646,725	
	Additions since, at cost, less Sales:			
	To June 30th, 1950, as last Balance Sheet	9,332		
	Year ended June 30th, 1951	477	9,809	
			656,534	
	Less Transfer to Freehold Properties (as above)		197,622	
474,885				458,912
	Plant, Motor Vehicles, etc., as valued (*)		77,283	
	Additions since, at cost, less Sales:			
	To June 30th, 1950, as last Balance Sheet	38,003		
	Year ended June 30th, 1951	18,333	56,336	
			133,619	
	Less Depreciation written off Vehicles to date		11,000	
109,286				122,619
	(*) By Messrs Henry Butcher & Co, June 1946.			
57,069	Casks as valued by the Company's Officials at March 31st, 1949 (Cost of Repairs and Renewals charged direct to Revenue Account)			57,069
2,181,673				2,207,328
	TRUSTEES FOR 4 PER CENT DEBENTURE STOCKHOLDERS, cash in their hands:			
1,690	Proceeds of Sales of Properties etc.		1,690	
7,080	Debenture Stock Sinking Fund		1	1,691
	CURRENT ASSETS:			
127,074	Investments – Quoted (Market Value at June 30th, 1951 – £112,186)		84,944	
102,094	Stocks on hand, at cost or under, in accordance with Inventories and Valuations by the Company's Officials		110,846	
	Sundry Debtors, Payments in Advance, etc.	51,062		
	Less Reserve for Bad Debts	5,000		
33,095			46,062	
120,798	Balance at Bank, and Cash in Hand		136,087	
	Unclaimed Dividends, Debenture Stock, Interest, etc. (as *per contra*):			
3,065	6½ per cent Debenture Stock and Deferred Interest Certificates and Interest thereon	3,055		
270	Dividends and 4 per cent Debenture Stock Interest	183	3,238	381,177
£2,576,839				£2,590,196

NOTE. There are contracts outstanding for Capital Expenditure in respect of Plant and Machinery, so far as not provided for in these Accounts, amounting to approximately £17,000.

On behalf of the Board,
L. NIDDITCH
J. I. REECE } *Directors.*

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

A Few Pitfalls of Estate Duty

SIR, – I have read with interest Mr Rink's article in *The Accountant* of December 2nd, 1950, and subsequent correspondence on the above subject. A further point which arises about which I am in doubt is whether, in the event of the assignee of a life policy dying before the donor, estate duty would be payable on the value of the policy at the date of the death of the assignee and, if so, under what section or sections of the Finance Acts.

If estate duty is payable in that event and also on the policy moneys on the death of the donor more estate duty would be payable than if no assignment had been made.

Yours faithfully,

Hull. W. H. H. HUTCHINSON.

[Mr G. A. Rink writes: Where a donee of property dies without having disposed of it, it 'passes' under Section 1 of the Finance Act, 1894, on his death and estate duty is payable on its value at that date. In the case of a policy on the life of a donor who is still living, this value must take into account the facts that (*a*) the policy moneys are payable only in the future; and (*b*) estate duty will presumably become payable on them in respect of the death of the donor.

As your correspondent points out, if the donee of a policy on the donor's life dies during that life, more estate duty will, in the aggregate, be payable on the policy than if there had been no gift. Even if the donee survived the donor, no duty would be saved as a result of the gift unless the policy was converted from a life policy into some other form of property before the donor's death.]

Capital Employed

SIR, – As a contribution to the above subject which was raised by Mr F. Simmonds in your issue of October 20th, I submit that the capital really employed in a business is, in fact, the total of the assets employed – the question as to by whom the funds to finance such assets have been supplied is an entirely different matter.

The assets are normally financed by (*a*) share capital, (*b*) surplus and reserves, and (*c*) provisions and creditors, the latter including permanent or temporary loans or bank overdrafts.

Before expressing profits earned as a percentage of assets employed, the amount of any interest paid on loans or overdrafts should be added back to the profits figure.

Many years ago, I attended an annual general meeting of a public company and, during question time, asked the chairman and the shareholders present whether it was realized that when the profits reported were expressed as a percentage of total assets employed, the return indicated was less than that which could at that time be obtained on British Government securities – the chairman made no comment on this when replying to the other points raised, and at the conclusion of the meeting declined my invitation to discuss with him the soundness of this method of assessing the efficiency of a business.

To take a simple illustration, if two businesses sell exactly the same article at exactly the same price *and* make exactly the same total net profit, but one of the companies, through good management and attention to such matters, consistently has lesser amounts invested in debtors, stocks and fixed assets, then its 'percentage return' will be greater and will, in itself, be an indication of the greater efficiency of that business.

In computing total assets, cash in excess of operating requirements, and investments not used in the business, should be excluded – there should normally be no other exclusions.

Yours very truly,

W. F. EDWARDS, A.S.A.A.,
Director and Treasurer,
London, SW1. GENERAL MOTORS LIMITED.

Finance Act, 1951, Section 22

SIR, – I would refer to Mr Stewart's letter in your issue of September 15th, in which he states, quite correctly, that in certain cases x years' income will give rise to $(x+1)$ years' assessments under Case V (or III or IV).

Mr Stewart (and your readers in general) will be interested to learn that this point was debated in the House of Commons on June 8th, 1951 (*Hansard*, Cols. 1583–1586), and a resolution was proposed to end the injustice.

The Attorney-General in reply admitted the force of the arguments put forward, but stated the Government could not accept the resolution as it stood. The Attorney-General ended his reply as follows:

> '. . . we will study the problem and work out an amendment which will meet the points of criticism which I have ventured to make. . . . I cannot promise we shall be able to put down that amendment on the Report Stage because it involves wider issues and will need a certain amount of prolonged study. . . .'

No such amendment appears in the Finance Act, 1951, but it is hoped that the matter will not be lost sight of and will be given place in the Finance Act, 1952.

Yours faithfully,

Welwyn Garden City. J. R. PARKINSON.

Taxing of Professional Accountants' Charges

SIR, – At a late stage in a case before the Official Referee, I was asked to assist the plaintiff.

This involved expressing an opinion as to a course of action, preparing schedules from original records as a result (this being done at short notice over a week-end), various work on these schedules with the defendant's accountant, and ultimately giving evidence. The case was settled out of court, substantially in my client's favour, but owing to the manner in which his case was presented, he was only allowed that part of the costs which referred to the first few days of the case.

My account gave a broad outline of the work done and showed a global fee, the first account being after I had prepared schedules but before settlement.

After two months or so, I was asked for and submitted a detailed account for taxing.

My points are: has a taxing master any authority over an accountants' charges? If so, how should the account be drawn out? Should the rate charged per hour be shown? Would it not be proper to make a charge for the responsibility and inconvenience of giving evidence in Court? On what standards would a taxing master base his opinion?

I have not followed the matter up because it does not affect me as I have been paid and have not had any queries. But my charges were on the low side, and I do just wonder how I might stand on a future occasion.

Yours faithfully,

E.

Installation of Standard Costing System: Consultants' Fees disallowed

SIR, – An Inspector of Taxes has disallowed fees paid to a firm of accountants for their services in connexion with the installation of a system of standard costs. He contends that the expenditure is of enduring benefit to the company and is of a capital nature.

Any views of readers regarding the allowance for tax purposes of this class of expenditure would be very much appreciated. The amount at stake is relatively small but the principle must surely be of great interest to members of the profession who specialize in this type of work.

Yours faithfully,

Hampton, Middlesex. K. G. PLATT.

NOTES AND NOTICES

Personal

MESSRS PERCY F. WARD & CO, Chartered Accountants, formerly of 27 Mosley Street, Newcastle upon Tyne, 1, announce that their offices are now located, as from October 22nd, 1951, at 26 Eslington Terrace, Newcastle upon Tyne, 2. Telephone: Jesmond 2252.

MESSRS LEWIN, LEAF & WALTON, Incorporated Accountants and Auditors, formerly of 28 Maddox Street, London, W1, announce that on October 29th they removed to Foley House, 12A Maddox Street, London, W1. The telephone remains Mayfair 2416–8.

MESSRS SHERMAN, APPLE & CO, Chartered Accountants, announce that, owing to unforeseen circumstances, their practice will not now be transferred to 18 Seymour Street, W1, as previously announced, but they will continue to practise at 81 High Holborn, WC1, as before.

MESSRS CRONE & STERRY, Certified Accountants, of 45 Park View, Whitley Bay, announce that the senior partner, Mr GEO. E. CRONE, A.A.C.C.A., died on Sunday, October 28th, after a long illness. The practice will be carried on by the remaining partner, Mr F. H. STERRY, A.C.A., A.A.C.C.A., under the existing firm name.

Chartered Accountants Students Society of London

A dinner debate to discuss the motion 'That honesty is a greater handicap to a politician than to a journalist' will be held on Thursday, November 8th.

As on previous similar occasions, dinner will be at 6.30 p.m., followed by the debate round the table. The cost will be 5*s*, and names should be sent in to the Debates Secretary, Mr F. R. Porter, F.C.A., A.C.W.A., 26 Charing Cross Road, WC2, or to the Secretary of the Students' Society, Mr R. J. Carter, B.COM., F.C.A., Finsbury Circus House, Blomfield Street, London, EC2.

Overseas Economic Survey

ECONOMIC AND COMMERCIAL CONDITIONS IN PORTUGAL AND HONDURAS

Surveys of economic and commercial conditions in Portugal and Honduras have recently been published by His Majesty's Stationery Office, price 3*s* and 1*s* net, respectively. They are the latest volumes in the series of Overseas Economic Surveys issued by the Commercial Relations and Export Department of the Board of Trade.

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Manchester Society of Chartered Accountants: Bolton Branch

Following a luncheon at the *Swan Hotel*, Bolton, on October 16th, a meeting was held at which the Bolton Branch of the Manchester Society of Chartered Accountants was formally constituted.[1] A committee of eleven members was appointed, from whom the following officers have been elected:

Chairman: Mr W. L. Whitehurst, F.C.A.

Vice-Chairman: Mr K. W. Horton, F.C.A.

Hon. Secretary: Mr E. Walkden, F.C.A., 1 Wood Street, Bolton, Lancs.

Hon. Treasurer: Mr L. H. B. Worsley, F.C.A.

Mr H. Leach, A.C.A., was appointed Hon. Auditor, and Messrs M. Wheatley Jones, B.COM., F.C.A., and J. S. Harrower, A.C.A., President and Hon. Secretary respectively, of the Manchester Society, are *ex-officio* members of the Committee.

Return of Rate Collection, 1950–51

The Council of The Institute of Municipal Treasurers and Accountants have published, in the style of previous years, a Return of Rate Collection for 1950–51.[2] Statistics for over 550 local authorities in England and Wales, including all county boroughs, the City of London, the Metropolitan boroughs and a representative selection of non-county boroughs, urban districts and rural districts, are presented in clear tabular form.

These statistics are arranged under twenty-four headings, and figures of rateable value, rates levied, and numbers of owners and owner-occupiers rated are shown, together with details of arrears and amounts collected.

Royal Society of Arts

Cantor Lectures

A series of three Cantor Lectures under the title 'Automatic calculating machines', is to be delivered to the Royal Society of Arts by Dr M. V. Wilkes, M.A., PH.D., Director of the Mathematical Laboratory, Cambridge University. The first of these three lectures will be given on Monday, November 12th, at 6 p.m., and the remaining two at the same time on November 19th and 26th. Applications for tickets of admission should be addressed to the Secretary of the Society at John Adam Street, Adelphi, London, WC2.

[1] See *The Accountant*, July 7th, 1951, at page 22.

[2] The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, SW1. 3*s* net.

Incorporated Accountants' Lodge

The installation meeting was held on October 23rd, 1951, at Freemasons' Hall, WC2, at which W. Bro. R. N. Barnett installed his successor Bro. C. V. Best.

W. Bro. Best invested the following officers:

W. Bro. R. N. Barnett, *I.P.M.*; Bro. J. A. Jackson, *J.W.*; W. Bro. W. J. Crafter, *Treasurer*; W. Bro. A. S. Darr, *Secretary*; V. W. Bro. H. A. R. J. Wilson, *D.C.*; Bro. J. C. Chaumeton, *S.D.*; W. Bro. W. F. Edwards, *J.D.*; W. Bro. E. J. P. Garratt, *A.D.C.*; W. Bro. A. A. Garrett, *Almoner*; W. Bro. A. S. Wagstaff, *Organist*; Bro. E. B. Trimmer, *I.G.*; Bros. E. J. Hakim, G. F. D. Rice, H. L. Brown, *Stewards*; W. Bro. A. C. Chitty, *Tyler*.

Included amongst the large number of guests were Sir Frederick Rowland, *P.G.W.*, W. Bro. A. M. Strachan, *W.M.* of the Chartered Accountants' Lodge, and W. Bro. R. A. Davies, *W.M.* of the *Sempers Vigilans* Lodge.

Secretary, A. S. Darr, 35 New Broad Street, London, EC2.

SEVENTY-FIVE YEARS AGO

From *The Accountant* of November 4th, 1876

Extract from a letter to the Editor:

Touting

Touting, sir, is carried on in the town in which I reside to a large extent, both by circulars and 'travellors'. I heard only lately of a gentleman receiving a call one evening from an accountant's clerk at his private residence, when the following dialogue occurred: 'Good evening, sir.' 'Good evening – your name?' 'I am Mr B.'s clerk.' 'Who is Mr B.?' 'Why, Mr B., the accountant; you're a creditor, I believe in X.Y.'s estate?' 'Unfortunately, yes, but what of that?' 'Oh, Mr B. will be glad if you'll fill up your proxy form at the foot of your proof of debt in his favour; you may rely upon his giving your claim every attention.' 'If that's the way Mr B. does his business, the sooner you go about yours the better' was the reply to the discomfited tout, who quickly retired.

How is this practice to be stopped? I would say: (1) By our societies bringing a healthy moral pressure to bear upon the members of the profession over whom they have some control. (2) By an endeavour to persuade creditors to attend the meetings themselves, and record their votes without the assistance of a touting medium; and (3) By sending copies of *The Accountant* containing the letters discussing the subject to the editors of our public journals, asking that public opinion may be evinced upon the question at issue.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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The Accountant

ESTABLISHED 1874

NOVEMBER 10TH 1951 VOL. CXXV NO. 4012

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THE ROYAL COMMISSION

THE public sessions of the Royal Commission on the Taxation of Profits and Income are significant not perhaps so much for what the witnesses say, since they usually add little to their written evidence, but for what transpires from the questions and remarks which fall from the members of the Commission itself. The public meetings held on 1st and 2nd of this month were no exception in this respect.

The leisurely progress of the Commission's deliberations have acquired a slightly unreal air with the departure of the Government which appointed it. The open hostility of industry and the City to profits tax, as being superfluous and unfair, has not prevented the new Administration from pledging itself to yet a third tax, whose very name raises visions of disincentive, wasteful management, technical complexities, and involved computations. Defining profit is difficult enough, defining excess profit means a final swing from the exact to the arbitrary. If, as is customary, the standard is the profit of an earlier period, it will be measured in pounds which are not the pounds of today. Perhaps the Alice in Wonderland atmosphere which tax controversy acquires in these days will soon be completed by someone's suggesting an excess income-tax which will simply confiscate the excess of everybody's present income over his pre-war income. As the chairman indicated, the precise provisions of the new excess profits tax will probably be announced while the Commission is still sitting and will no doubt be in force before it reports.

The Commission appears to have seized on the projected excess profits tax as a potential means of making up the cost of any alleviation which it may propose in the other two taxes. A possible capital gains tax also appears to be in the Commission's mind. Neither possibility aroused any enthusiasm in the witnesses. The demerits of excess profits taxes are known; MR F. BOWER, for the Association of British Chambers of Commerce, gave a simple example of what might happen under a capital gains tax. An employee living in a house which cost him £1,000 before the war is transferred to another town. He sells his house for £4,000 and promptly spends it on another one of comparable size. In addition to the upheaval in his domestic life, he must pay tax on the purely notional profit of £3,000. One can imagine an elaborate tax bringing such people into the net and failing to reach the elusive people who make large deals in pound notes. If minor inequities are to be replaced by major ones, the Commission will have been appointed in vain. However, in view of the fate of the Millard Tucker Committee's recommendation about initial allowances, this may cause no surprise. Its very terms of reference make the Commission's task of rationalizing direct taxation

particularly difficult. It is already clear that there will be strong resistance from non-trading taxpayers to any alteration in methods of computing profits if those alterations, no matter how logical, result in an increased rate of tax all round. The argument that it is taxation which is inhibiting industry from maintaining productive capacity has many challengers, not least among professional economists.

Perhaps the most interesting item which emerged from the recent meetings was the statement by MR MILLARD TUCKER that a taxpayer, adducing professional accountancy evidence, had successfully established before the Special Commissioners his right to apply the base-stock method of stock valuation for tax purposes. He added that he understood the Inland Revenue to be appealing. Whether this appeal will be successful remains to be seen, but it will be remembered that the Revenue recently suffered another signal reverse in relation to stock valuation, to the considerable advantage of the taxpayer. This was when the Revenue argued that 'cost or market value whichever is the lower' meant that the taxpayer could not value some items at cost and some at market value, but must adopt one or other basis and keep to it (*C.I.R. v. Cock, Russell & Co Ltd* ([1949] 28 A.T.C. 393). It may be that different bodies of commissioners will hold that the 'first in, first out' and the 'last in, first out' methods are both correct and that the Court will uphold their decisions as questions of fact. The chairman of the Commission asked the Federation of British Industries to deal in a subsequent memorandum with the question of whether both methods are equally 'true and fair' for Companies Act purposes.

Although the case for stepping up depreciation allowances in inflationary periods was thoroughly discussed before the Millard Tucker Committee, much new light was thrown on the problem at the recent meetings of the Commission. What might be called negative light was thrown upon it by the bringing in of the problem facing those taxpayers with fixed incomes, which is not a problem of arriving at the amount of income. If, as MR S. P. CHAMBERS asserted, the total of industrial physical assets, and therefore of productive potential, is declining as a result of the joint effect of taxation and inflation, then short of a cure for inflation itself, the case for relieving profits applied in building up reserves for eventual replacements is made out. As has been remarked, no changes in the allocation of the cake can increase the size of the cake itself; only increased production can do that.

The Commission showed interest in the suggestion that partnerships and individual traders who ploughed back profits should have similar relief from sur-tax to that which is in effect enjoyed by companies, particularly now that the company sur-tax provisions are practically a dead letter. It may be that some relatively simple scheme can be devised under which the firm registers itself for tax purposes and is then enabled to segregate business from private assets for those purposes also. Two difficulties were pointed out: the 'policing' of the reserves, to prevent evasion, and the complications following the retirement or death of the partner or individual trader.

MR F. M. GILLIAT, F.C.A., appearing for the Association of British Chambers of Commerce, made a point which perhaps has not yet received the attention it merits. It concerns distribution charges for profits tax. Every company which now receives non-distribution relief at 40 per cent carries a heavy contingent liability for distribution charge should the retained profit eventually be distributed. Where 75 per cent of the profit is retained, it is insufficient to meet that full contingent liability, should it mature. The explanation of this apparent paradox is that the distribution charge itself, when made, will be available as a deduction from the subsequent income-tax assessment, thus recovering 9*s* 6*d* in the £. But if the company is compulsorily wound up, the profit of the final period may be too small to absorb this deduction, or there may be no profit at all. Here perhaps is another example of a tax being started at a comparatively low rate and the rate being progressively stepped up without proper consideration of the repercussions. The projected rate of profits tax in 1947 was 12½ per cent, with non-distribution relief of 7½ per cent. The rate charged has now been quadrupled, the rate of non-distribution relief more than quintupled, while particularly stringent anti-avoidance provisions have been imposed.

It transpired that the cost of exempting from United Kingdom taxation those trading profits

earned abroad which are not remitted would be of the order of £100 million, or 8*d* or 9*d* on the income-tax. Nevertheless, the Federation of British Industries is still in favour of such an exemption. MR MILLARD TUCKER pointed out that the original imposition of income-tax did not contemplate taxing the profits of the 'plantations' on other than the remittance basis. It is only the accident of the development of case law on the subject which has brought so much foreign income into the net. MR MILLARD TUCKER said that where control and management had been removed abroad to avoid tax, in his experience this had invariably meant the appointment of a foreign board of directors. The repressive measures contained in the last Finance Act may well prevent any further drift abroad in the case of existing businesses, but it augurs little good for future enterprise.

We have not yet heard the last of the current year basis of income-tax assessment for businesses. The Federation are still seeking a method which will achieve the change-over without too much administrative difficulty.

Again there was the plea, already voiced in these columns, that the complications of income-tax law may perhaps all be justified in the case of substantial income, but it is a waste of man-power and paper to apply them meticulously to the modest income of the vast majority of taxpayers. On the one hand, the final effect of these modifications is often negligible, on the other, the small taxpayer does not in any case understand them and cannot afford to employ professional assistance to check them for him.

AUSTRALASIAN COMMENTARY–IV

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

'As at'

'ATTIC', a correspondent of *The Australian Accountant* who has a flair for bringing to notice curiosities in accounting practice, thinks that the words 'as at' in the heading of a balance sheet may be responsible for giving to laymen the impression that accountants can do anything with figures. Nobody refers to the Melbourne Cup being run *as at* . . . or to a person's birthday as being *as at* . . . or to the landing at Gallipoli as having occurred *as at* . . . It would seem desirable, he said, to produce a balance sheet 'at June 30th', or 'on June 30th', or simply 'Balance sheet, June 30th'.

Shares of No-par Value

In discussing the pros and cons of shares having a no-par value, the Companies Advisory Panel of the Federal Institute of Accountants expressed the view that it was debatable whether there was any place in Australian company finance for this type of share.

Shares of no-par value involve difficulties in accounting but there are compensating advantages, e.g. dividends would be declared at a stated amount per share 'rather than at a misleading rate per cent'. Further, the Panel thought that such a share system would result in the presentation of company profits in the more realistic light of relationship to shareholders' funds or net worth rather than as a direct percentage on issued and paid-up capital. The Panel intends to inquire into the American practice of no-par value shares. (*The Federal Accountant*, September.)

Differential Costs

In the September issue of *The Australian Accountant*, Mr H. B. Williamson, A.I.C.A., said that analysis of the problem of possible increased production and its relation to costs is one of the services rendered by the cost consultant to management and it is a problem which differential costs can solve.

'Differential costs', he said, 'are not total costs less sum of residual costs; they are those costs incurred through added output after absorption of fixed costs at capacity.'

Later, he went on to illustrate what he meant by explaining that if the constant costs that will eventuate from extra plant installation are treated as direct expense for the period, the costs of production are differential in relation to original budgeted output.

The views which Mr Williamson has ex-

pressed about differential costs are based on the ground that the successful concern is always out to make additional profit, and at capacity can be said to be already on the limit. 'Differential costs or expansion are the only means of increase.' It therefore follows, on this view (and indeed it is expressed), that if a flexible budget has provided for an alternate scheme in the event of increased plant installation, items such as depreciation and interest on capital are part of the constant cost and are not differential costs – all costs have been allowed for in the budget.

As more and more writing on differential costs is appearing in professional literature it becomes increasingly evident that a great need exists for a comprehensive treatise on this subject. The concept of differential cost is of great importance but, at present, there appears to be, as Mr Williamson himself points out, confusion in some quarters between it and marginal cost. Not only that, there are some who would claim for the notion of differential cost a greater coverage of cost situations than would appear to be indicated in Mr Williamson's remarks, although of course, he is possibly writing in a restricted context.

Monthly Financial Statements

One of the thorny problems in accounting under present-day conditions of continual staff trouble is that relating to the frequency with which financial statements are to be prepared throughout the year. At a recent congress held by the South Australian Division of the Australian Accountants' Research Society, Mr B. S. Slade stated that it was vitally necessary to the successful control of any business that profit and loss accounts, balance sheets and schedules in support of all items be prepared monthly.

Mr Slade made this statement in a paper relating to standard costs so that it would have reference, presumably, to reasonably large and well organized business units, capable of supporting a system of standard costs (*The Chartered Accountant in Australia*, September).

Mechanization undoubtedly helps in this problem, but other units, just too small for economical mechanization, must continue manually and in some such cases, to the writer's knowledge, monthly reviews of operating results have had to be dispensed with. In lieu thereof, quarterly and six-monthly reviews have had to be relied upon. Of course, even mechanization is not a trouble-free solution. Many operators belong to a nomadic and/or marriageable population and when the main and the stand-by operators go it gives no joy to stare at an idle machine.

Abolition of Annual Statements

At Sydney University during September, Mr R. K. Yorston, F.C.A.(AUST.), delivered the sixth Commonwealth Institute of Accounts Research Lecture. The subject of the paper was the accounting implications arising from the corporation viewed as a social unit.

The paper was founded upon information supplied to Mr Yorston as a result of his questionnaire to members of companies, to employees and to bank officials. One conclusion reached was that it 'is virtually useless sending a revenue statement and balance sheet to all members. Members who desired copies should be able to get them on request.

In lieu of the conventional set of statements supplied to members, it was recommended that a narrative explanatory report of the directors should be sent quarterly or half-yearly accompanied by a statement of source and disposition of funds in a condensed form – both report and statement to be 'devoid of accounting jargon'.

The paper contained appendices showing why corporation accounting was so important. In 1950 over 3,000 ordinary companies were registered in Australia. The largest number of companies registered in one state in any one year was 1,656 in New South Wales in 1947. Even allowing that a large percentage of registrations never operate, the list of companies registered in the different states since 1859 is staggering.

Standard Company Practice

A welcome easing of professional burdens will follow as a result of the formation of a Standard Company Practice Committee by The Chartered Institute of Secretaries, Victorian Division. Already the committee has produced a set of recommendations for the carrying out of a number of procedures normally incident to the administration of companies in Victoria. These include: changes of name in the register of members upon marriage etc., replacement of lost share certificates, identification of shareholders, transmission of shares on death of a member.

In the case of a change of name due to marriage, the committee considers that the practice of many companies of insisting upon sighting a copy of the marriage certificate or a statutory declaration is unnecessary. They suggest that a letter be requested from the shareholder asking the company to alter its share register, such letter to contain both the old and the new signatures of the shareholder.

LANDLORD AND TENANT

LEASEHOLD PROPERTY (TEMPORARY PROVISIONS) ACT, 1951

by T. J. SOPHIAN, Barrister-at-Law

THE Leasehold Property (Temporary Provisions) Act of 1951, which came into force on June 24th last, affects tenancies of dwellings for terms of upwards of twenty-one years and also tenancies of shops. It may be helpful to give a brief résumé of the effect of these provisions.

PART I. LEASEHOLD DWELLINGS

In order that a tenancy should come within the provisions of Part I, the tenancy must be one exceeding twenty-one years and expiring not later than June 24th, 1953. Section 1 of the Act deals with the case where the tenancy expires within the two-year period, June 24th, 1951, to June 24th, 1953. In such a case, if the tenant or member of his family was occupying some part of the property as a dwelling immediately before the lease came to an end, the tenancy will be continued automatically until June 24th, 1953. Where, however, the tenancy had already come to an end before June 24th, 1951, the protection of the Act can only be claimed if certain conditions are fulfilled. The tenant, or some member of his family, must have been residing on some part of the property as a dwelling, not only immediately before the original lease came to an end, but continuously from that date until June 24th, 1951. Where the tenant has held over after the original tenancy came to an end, the rent and the terms on which he held over must have been the same as those under the expired lease. Moreover, no premium must have been paid, and in addition any new tenancy agreement must have been for a period which either would expire, or be capable of being terminated by notice to quit, before June 24th, 1953.

If no tenancy agreement has been made, however, and the tenant has held over, perhaps even against the wishes of the landlord – that is as a trespasser – the tenant will equally be protected.

In such cases there are two periods of continuation; firstly, as from the date when the original lease expired until June 24th, 1951; secondly, for the two-year period, June 24th, 1951, to June 24th, 1953. A tenant is not bound to accept the benefits of the Act, but if he desires to prevent the statutory continued tenancy from arising, or from running for its full period of time, he must serve the landlord with notice to that effect; this notice must be of at least one month.

The landlord, on the other hand, has only a limited right of determining the statutory continued tenancy. This right will arise where the tenant has assigned any part of the living accommodation of the premises, or where he has sublet, by one or more sublettings, the whole of such living accommodation. In such cases the landlord may, by notice of at least one month, determine the continued tenancy.

Covenants

Whilst the tenancy is continued, whether before or after the Act, and indeed while the original tenancy is still running prior to its continuation under Section 1, the covenants in the lease will be suspended. Exceptions are only made as regards covenants for the payment of rent and rates, covenants to insure and those prohibiting user for illegal or immoral purposes.

But while the landlord may not forfeit or claim damages for breaches of covenants which are thus suspended, he is not debarred from indirectly enforcing the covenants by injunction. The tenant is protected in relation to covenants which are thus suspended, not only as against his own landlord but indirectly as against a superior landlord; for if a superior landlord enforces the covenant against the tenant's own landlord by way of forfeiture, the interest of the tenant will still continue.

Repairs

As far as repairs are concerned, the Act confers a statutory power on the landlord, and on superior landlords, to enter the premises and execute essential repairs; that is, work reasonably required for preventing or arresting any serious depreciation in the condition of the property, or of adjoining property. If such work is rendered necessary as a result of a breach by the tenant of his repairing covenants, the tenant will be liable to the landlord for the cost of such work, but the right of recovery of any such expenditure from the tenant will be postponed until after June 24th, 1953.

Protection of Subtenants

As a result of the *Knightsbridge Estates* case ([1950] 2 K.B. 228), subtenants at rack-rents, holding under lessees who themselves hold under superior landlords at rents for less than two-thirds of the rateable value, are not protected by the Rent Acts as against the superior landlord, when the superior term comes to an end. In order, however, to protect subtenants in such cases, Section 7 of the Act of 1951 may be invoked. This section, it should be observed, will in general only operate to protect subtenants who would be entitled to the benefit of the protection of the Rent Acts as against their own sublessors. It will not confer protection on tenants who would not be protected by these Acts, when their own subtenancies came to an end. But if the subtenant *is* protected, then upon the determination of his subtenancy, he would become a statutory tenant of his sublessor and when his sublessor's lease expired, he, the subtenant, would enjoy the same rights and privileges as against the superior landlord, who accordingly would not be entitled to recover possession from him except in those cases in which possession might be ordered under the Rent Acts; and, of course, the subtenant would be entitled to the benefit of the Rent Acts with regard to the amount of the rent of the premises and such matters.

PART II. PROVISIONS AFFECTING SHOPS

To deal now with the provisions affecting shops. Part II of the Act is limited in its operation and does not extend to every tenant who may claim the benefit of the Landlord and Tenant Act, 1927. It is essential that the tenant should be carrying on a retail trade or business, though licensed restaurants and similar licensed premises would come within the provisions of Part II where the takings from the sale of intoxicants do not exceed 60 per cent of the gross takings.

The Act, moreover, will only protect a tenant of a shop where the tenancy is one which has either expired by effluxion of time, or has been terminated by notice to quit, on June 24th, 1951, or on some subsequent date falling within the two-year period expiring on June 24th, 1953.

Part II will apply even though the premises consist of a shop with living accommodation; but in the case of the latter, the living accommodation must have been occupied wholly or mainly by the tenant or by a person employed by him in the business of the shop.

Extension of Tenancy

However, Part II differs from Part I in that there will be no automatic extension of the tenancy of a shop; the tenant must apply to the County Court for an extension. The extension may not exceed one year, but the tenant can apply from time to time if necessary for further extensions. The time limits for these applications, it seems, must be strictly observed or otherwise the right to an extension will be lost. Where the tenancy is to expire by effluxion of time, application to the Court must be made at least one month before the date of expiration. Where, on the other hand, the tenancy is terminated by notice to quit, the application must be made within one month after service of the notice.

Where a tenancy is due to expire, the landlord may require the tenant, by serving him with notice at least four months before the date of expiry, to elect whether he will claim the benefit of the Act; if such a notice is served, application to the Court must be made within one month after the service of the notice.

Exceptions to Grants of Extension

The Court will determine the rent, and the other terms and conditions, on which the extended tenancy is to be held. The rent, it seems, will be the ordinary market rental which the premises can command, and for this purpose scarcity and special values cannot be entirely ignored. No extension, however, will be granted in the cases specified in subsection (3) of Section 12; these are where the tenant has committed breaches of covenant of such a nature that they ought not to be excused; where suitable alternative accommodation for the tenant's business has been offered; where possession is required for demolition or reconstruction; where a public authority has an interest in the premises and the grant of an extension would not be in the public interest; and finally, where greater hardship would be caused by ordering the grant of a new tenancy.

Where the interest of the immediate lessor is not large enough to cover the whole period of the extended tenancy, the Court will order the superior landlord to grant a reversionary tenancy to make up the period of the extended term. The decision of the County Court judge on such applications will be final, but the Court is empowered to grant leave to appeal to the Court of Appeal. If such leave is granted, the Court will direct the terms on which the tenant is to continue in occupation during the intervening period before his appeal is finally determined.

WEEKLY NOTES

Accountants in the Government

The names of three members of the profession appear in the lists of Ministerial appointments which have recently been issued from 10 Downing Street. Among the senior appointments is that of The Lord De L'Isle and Dudley, V.C., M.A., A.C.A., as Secretary of State for Air. Lord De L'Isle was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1934; before succeeding to the title in 1945 he was for a few months Conservative Member of Parliament for Chelsea and was Parliamentary Secretary to the Ministry of Pensions. Lord De L'Isle served with the Grenadier Guards in the last war and was awarded the Victoria Cross in Italy in 1944. Consequent upon his appointment he has resigned his directorships of Lloyds Bank, Phoenix Assurance, Kia-Ora, Schweppes and Cape Town and District Gas and Light Company.

The junior Ministerial appointments include those of Commander T. D. Galbraith, R.N. (Retd.), M.P., C.A., as Joint Parliamentary Under-Secretary of State for Scotland, and Mr A. E. Marples, M.P., A.S.A.A., as Parliamentary Secretary to the Ministry of Housing and Local Government.

Commander Galbraith, a member of the Scottish Institute, is senior partner in the firm of Messrs Walter & W. B. Galbraith, Chartered Accountants, of Glasgow. Joining the Royal Navy in 1903, he retired in 1922, serving again, however, in 1939–42. He became a member of the Institute of Accountants and Actuaries in Glasgow in 1925. Commander Galbraith was elected to Parliament in 1940 as Member for his present constituency – the Pollok Division of Glasgow – being Joint Under-Secretary for Scotland in the 'caretaker' government in 1945.

Mr Ernest Marples qualified as a member of the Society of Incorporated Accountants and Auditors in 1930. He is Conservative Member for Wallasey, Cheshire, the seat to which he was elected in 1945 and 1950; he gives up the managing directorship of Marples, Ridgway & Partners, a London firm of civil engineers and builders.

When is a Share Given?

The estate duty provisions dealing with gifts made less than five years before death, are so onerous that it is important to know just when the five years begin to run. In the case of a gift of shares, does the five years begin immediately when the donor has executed the transfer, or not until the directors have passed the transfer and the recipient has been duly registered as the owner? This point was the subject of an appeal to the High Court on November 1st, 1951, in the case of *In re Rose; Rose v. C.I.R.* Here, although the deceased had signed the transfers outside the five-year period, they were not registered in the books of the company until within five years of his death and, moreover, the company was one in which the directors had powers under the articles to reject transfers. The Inland Revenue argued that until registration, both the legal and the equitable titles to the shares remained in the donor and were never severed. Mr Justice Roxburgh held, following *In re Rose* ([1949] Ch. 78), that the beneficial interest passed when the transfer was executed by the donor and that accordingly estate duty was not payable.

The Training of Supervisors

The report of the second of the four teams which visited the United States this year under the auspices of the Anglo-American Council on Productivity to study problems of training for industry, was published last Saturday.[1] The particular task allotted to the team was to study the methods used, and the facilities provided, both inside and outside industry for the development of supervisors at all levels excluding higher management. The team considers, in its summing-up, that if supervision is to play a full part in increasing productivity, all supervisors of foremen level and upwards should be regarded as responsible members of the management team. There must also be greater decentralization of responsibility and authority to the various levels of line management and supervision, right down to the first-line supervisors. It also states that the ability of the supervisor to get on with his fellow men is at least as important as his technical responsibility, and notes that there should be a periodic review of all personnel so that likely individuals may be selected and trained for jobs of greater responsibility.

The team concludes its report by emphasizing the following five points: (*a*) the contribution to productivity which can be made by careful supervisor selection and training; (*b*) the need for well-informed and sustained top-management support of supervisory development; (*c*) the importance of continuous training, not only for supervisors, but for all levels of management; (*d*) the need for further research in the field of supervision; and (*e*) the more effective provision of advice and of training courses for line-management trainers, to meet the requirements of smaller firms in relation to supervisory development.

The King's Speech

A change of government at a general election brings with it to some extent a change of philosophy – a different attitude to the nation's basic problems. This has been true with the recent election, although on so many matters the line of difference between the parties is narrower than the parties would be prepared to admit. On such occasions, therefore, there is a particular interest in the King's Speech which traditionally lays down the broad lines on which the

[1] 'Training of Supervisors.' The Anglo-American Council on Productivity, 21 Tothill Street, London, SW1. (2*s* 6*d* post free.)

new Administration proposes to guide the country's fortunes.

To some extent the Gracious Speech is overshadowed this time by the economic debate which is scheduled to follow and which will have begun after this issue has gone to press. Putting aside all matters of economic day-to-day policy which will be discussed next week there remain a number of points in the Speech which are worth recording.

Pride of place in the Speech was given to the national safety where in addition to the generalities which might have been expected on such an occasion from a great defence minister, the Prime Minister himself, there was a reference to the revival of the Home Guard. The needs of home defence will clearly occupy a greater portion of this Administration's time, and presumably in due course of the taxpayers' money, than they have done in the immediate past. There were also passing references to drastic action about inflation and the shortage of labour in key industries.

Legislation on the de-nationalization of the steel industry is to await the new year. The Monopolies Commission is to have its powers extended and increased. This will be a testing issue for the present Administration, for the Conservative Party is not by tradition violently opposed to private monopoly. Action is promised on road transport – another election pledge. In general there is to be an effort to introduce a greater degree of flexibility into nationalized industries. The re-enfranchisement of the universities is to be left until the next Dissolution.

Altogether, the new House is faced with a much less ambitious programme of legislation than its last two predecessors though such controversial legislation as is tabled will be exceedingly complicated – witness the complexities of changing the ownership of the steel industry. Defence, foreign affairs and the critical needs of the moment in economic affairs will be the main pre-occupations of the present Parliament. If such should seem a short list of matters for the Legislature, appearances are likely to prove deceptive.

The Boom That Wasn't

To those who had expected a sudden upsurge of confidence in trade and industry when the Conservatives won the election, the events of the last week must have made sobering reading. There has been no sign of a boom: if anything, sentiment has moved the other way. No matter where one may have looked for superficial indications of optimism about the outlook, the barometers have been found to be at 'unsettled' rather than at 'set fair'.

Stock Exchange prices have been depressed and there is little to suggest that it was the Conservative allusions in their election literature to the usefulness of a rise in the rate of interest as a deterrent to inflation, which has caused the weakness in gilt-edged prices. Equities have fared no better. The pound sterling, which has been softening on the free market for some time, improved slightly the day after the election results were announced, and then thought better of it – international speculators deciding no doubt in a flash of common sense that this country's external problems would not be automatically put right by a change of government.

There have been Press reports in the last week or so that the new Administration has found the economic position worse than it had expected, and whatever truth there may be in this sort of talk it has added its quota of foreboding about the immediate future.

The Chancellor of the Exchequer will have made his first statement about the state of the nation after this issue goes to press. Whatever he may have said either on the facts of the position or about his prescription for bettering it, some good will have been done by a statement from the Government, even if it is only of an interim sort. Business sentiment, like nature, abhors a vacuum.

Six Months' Surplus for B.O.A.C.

With the publication some time ago of the results of the 1950–51 operations of the two state-owned airlines it had been expected that they would break into the clear in the current financial year – unless special adverse circumstances intervened. The chairman of B.O.A.C. announced last week that the Corporation had achieved a six-month operations period (half the current financial year) with a net surplus.

The surplus is only a small one, £133,000 in fact, but the results suggest that the trend was becoming rapidly better towards the end of the period, which in turn would give reason for thinking that good results will be recorded before the onset of the winter, when weather conditions are apt to take a seasonal toll on airway receipts. Throughout the six months, traffics kept to a high level and the outcome was also helped by higher first-class air-mail takings.

Cargo Handling

Volumes have been written over the years – informative, critical and plainly abusive – about the slow turn-round of ships at ports and all that entails for the efficiency of the whole transport system. It is therefore pleasant to record that a step has been taken to bring a fresh line of approach to the problem.

An effort is being made to examine the problems of cargo handling at ports on an international and technical basis. It is proposed to set up an International Cargo Handling Co-ordination Committee. A meeting of observers and experts met in London last week to discuss provisional articles of association.

The idea is to carry the field of study beyond the immediate question of cargo handling at ports. It must therefore cover as well the problems of road transport, integration of road, rail and sea transport, packaging and labour relations. This is a vast range of subjects and the committee will have to operate as a source of information on all these matters as well as an international forum. The whole idea is none the less imaginative and deserving of financial support from governments and interested bodies concerned with the efficient movement of goods.

AN ACCOUNTANT'S WORKING PAPERS–I

by S. M. DUNCAN, F.C.A.

Introduction

A GREAT deal of the work of a qualified accountant requires the preparation or collection of working papers. This will be so whether the accountant is in practice, is an employee of a practising accountant, or is in the service of an industrial or other undertaking.

Working papers are, perhaps, of greater importance to the practising accountant than to his colleague in industry, in that they constitute essential records relating to the work done for his clients. In this paper I shall deal with the working papers of the practising accountant.

Examples of audit papers appear in the appendix and I should like to emphasize that they are intended to show the manner in which certain hypothetical facts might be dealt with. The examples do not purport to suggest that the accounting principles or auditing procedures described therein are necessarily the most appropriate.

Need for Working Papers

Working papers provide, in permanent form, information about the work done in relation to each job undertaken by the accountant, including particulars of the records examined and of the facts on which his conclusions were based. They may, therefore, be considered to be an essential part of the practising accountant's records. Their preparation, in most cases, is a necessary operation in the performance of the accountant's work relating to each job, whether it involves auditing, accountancy, taxation or most of the other types of work performed by professional accountants.

The following considerations may serve to illustrate the need for adequate working papers as an essential part of the accountant's records:

(*a*) The working papers will enable the work done by the accountant's staff to be reviewed by him in an efficient manner. As a result the accountant will be able to ascertain that the work done constitutes an adequate performance of the instructions accepted. He will also be in a position to decide on the terms of the report or other document which is to be issued at the conclusion of the work. I do not suggest that a review of working papers will enable a principal to dispense with a discussion with the assistant in charge of the work, but the papers, if properly prepared, will enable the principal to direct his attention to matters of importance.

(*b*) Reference is frequently required at a later date to facts previously ascertained by the accountant. For example, in dealing with the taxation affairs of a client it is often necessary to refer to information already obtained in the course of auditing the client's accounts. The existence of adequate working papers will enable the accountant to obtain the information readily and avoid troubling his client to supply it again.

(*c*) Members of the accountant's staff familiar with work of a recurring nature may not be available when the work is to be taken up, either due to changes in staff or because they are engaged on other work. Adequate working papers relating to the work done in the previous periods will enable the job to be assigned to other members of the staff. A study of these working papers will enable the senior member of the staff allocated to the work to familiarize himself with the job without reference to the client on many points which otherwise would be necessary. Changes in the staff allocated to recurring work on a particular client's affairs may therefore be made with the minimum of inconvenience to the client.

Due to the facility with which changes may be made in the staff allocated to particular work, delays may be avoided by the allocation of other staff to recurring work when staff previously engaged on the work are not available at the time when the work is ready to be undertaken.

(*d*) In jobs of a recurring nature, such as audits or the preparation of annual accounts, the work on future occasions will be facilitated by the existence of papers giving particulars which will be required, e.g. service agreements with senior executives, and details of title deeds of property. Reference to the papers relating to the previous occasion on which the work was done may enable the work to be planned more effectively, in that arrangements can be made to deal expeditiously with items which presented special difficulty or held up the completion of the work. Items which it was considered required further investigation at the previous audit will not be lost sight of and will be followed up.

(*e*) The working papers provide a ready means of reference to analyses or constituent amounts of items in the accounts or statements examined by the accountant. The existence of the papers will enable questions relating to the accounts or statements to be dealt with expeditiously without reference back to the books and records of the client.

(*f*) Questions may arise, sometimes after a considerable lapse of time, as to the adequacy of the work done by the accountant. The working

An address delivered on September 12th, 1951, at the summer course of The Institute of Chartered Accountants, held at Christ Church, Oxford.

papers, if properly prepared, will provide evidence of the work done, the scope of the examination made, and of the explanations obtained. Their existence may prove extremely valuable in rebutting allegations of lack of due care and diligence. Without adequate working papers the accountant would be bound to rely on his memory or that of his staff for his support. Memory is not always reliable and, furthermore, persons who carried out the work may not be available when required.

It will be evident from the foregoing that the accountant's working papers fulfil important functions and their preparation and presentation may be considered to be worthy of study.

Factors to be Observed in Compiling Working Papers

The manner in which the facts will be displayed in the working papers will vary according to the nature of the work to which they relate, the degree of completeness of the records from which they are compiled, and other factors.

A great deal of the benefits to be derived from the existence of working papers will, however, be lost if they are not compiled in a proper manner, and I deal below with some of the factors to which consideration has to be given in their preparation.

The facts dealt with in the working papers should be presented clearly and concisely. The preparation of working papers often calls for considerable skill and their usefulness will be curtailed if thought is not given to the work of preparation.

They should be prepared in such a way that the salient facts are readily apparent to any one examining the papers. For example, a schedule may be required to show the composition of an amount which itself consists of several classes of item, each made up of numerous amounts. The schedule would agree with the total amount if all the items were listed without regard to their nature. Its usefulness, however, would be greatly enhanced if it were presented in such a manner that the total of each of the classes of item was apparent and if, where numerous items were involved in any class, these were dealt with on supporting schedules, so that the essential facts relating to the composition of the amount with which the schedule deals are clearly shown on one sheet of paper.

All factors to which consideration has to be given in connexion with the work to which the papers relate should be dealt with in the working papers. On the other hand, unnecessary details should be avoided. In most cases the working papers are the property of the accountant and generally speaking, it is not necessary to burden them with voluminous records belonging to the client. For example, it is usually not necessary for the working papers relating to the audit of a manufacturing company to include the detailed stock-taking sheets on which the stock valuation is based. A summary of the stock valuation with information as to the basis adopted for taking and valuing the stock, and the work done by the auditor to substantiate the values, including notes of tests applied and the results thereof, would suffice in a normal case.

Where the working papers relate to the examination of books and records by the accountant for the purpose of an expression of opinion by him, the papers should distinguish clearly between:

(i) Figures extracted from the books or records examined by the accountant, and

(ii) Details of the work done by the accountant to check or verify the records, and

(iii) Any notes as to the conclusions reached by the accountant as a result of his examination.

The handwriting should be clear and legible, the papers should be neatly prepared, and should be capable of being easily understood. The preparation of a schedule or statement recording the composition of an item examined by an accountant, the work done by him in relation to that item, and the conclusions reached may seem laborious particularly when the accountant is satisfied that the item is in order and the time available for the remainder of the work in hand is limited. There is a great temptation to prepare the working papers in a hurried manner and, perhaps, to omit details which are necessary to a complete understanding of the item dealt with. If the item is not of sufficient importance to warrant the preparation of a schedule the time taken in preparing one, however incomplete, is wasted. On the other hand, if a schedule is necessary it should be properly prepared; otherwise it will not be readily understood when considered at a later date, and time will be wasted in attempting to understand what should be apparent on the face of the schedule.

Where practicable, schedules or papers supplied by the client should be used so as to avoid the laborious copying of particulars on the accountant's own papers. In this way it is possible to effect considerable saving in time and therefore expense. Clients often prepare schedules showing the composition of items in their accounts which, with slight amendment, could be used by the auditor for his working papers. The client is generally willing to accept suggestions for a change in the form of his schedules, if the result is to make them clearer and also to adapt them to the purpose of the auditor. Generally speaking, the client would prefer to have such a suggestion made to him rather than for the auditor's staff to ignore the schedules which he supplies to them.

The paper used for the accountant's working papers should be of good quality so as to withstand frequent handling, and be of convenient and, as far as practicable, uniform size. Foolscap or double foolscap paper is often used. The papers should be securely fastened together, arranged in a logical order, adequately referenced, and the subject to which they relate should be clearly marked on the outside.

Audit Papers

The practice of public accounting consists to a large extent of the examination of accounts of companies and other undertakings with a view to the expression of an opinion by the accountant as to the truth and fairness of the view of the financial position and of the results of the operations disclosed by the accounts. It may be helpful, therefore, if I briefly outline a method of arranging and compiling working papers relating to audits. It is impracticable in a paper of this length to give a complete example of a set of working papers, but in the appendix I give examples of some of the more important schedules relating to the audit of the accounts of a hypothetical company.

In the normal case the working papers relating to the audit of the accounts of an undertaking will consist of:

(*a*) a draft of the accounts on which the opinion of the accountant is required;

(*b*) a set of schedules referenced to these accounts, containing supporting details to items in the accounts and other information;

(*c*) a 'permanent' file containing documents, or extracts therefrom, to which reference has to be made for audit purposes from year to year.

The draft accounts should be exactly in the form to which the accountant is requested to append his report. In my experience it is important that the working papers should be referenced to this draft, and that the accountant should have it before him when reviewing the work. In some cases detailed accounts are prepared in the first instance, and from there a summarized account for publication is made up. I find it preferable to consider the account 'for publication' as this is the document to which the accountant's report is to be appended. A point which is apparent on an examination of the detailed accounts may be obscured in the summarized accounts and may be overlooked if the accountant's attention is focused on the detailed accounts.

As a matter of office routine it is convenient for the audit schedules relating to the accounts to be arranged in a defined order so that, in reviewing the accounts with the working papers, the principal can proceed in a logical and orderly manner. Each schedule should be clearly headed with the name of the company, the date of the accounts, and the subject dealt with on the schedule. A method which is commonly used for arranging audit papers is for the schedules to comprise one or more bundles of foolscap paper, secured at the top left-hand corner with a stout paper fastener and comprising:

(1) Stout front sheet containing the name of company, period of accounts and name of senior assistant responsible for the work;

(2) Final notes;

(3) Lists of missing or defective vouchers;

(4) Details of the audit work done;

(5) Extracts from the minutes of meetings of the partners, shareholders, directors, or other governing body held during and since the period under review;

(6) Lists of balances in the books from which the accounts have been prepared;

(7) Schedules supporting items in the accounts;

(8) Rough memoranda, notes, etc., prepared by audit clerks during the course of the audit and either cleared or transferred to the final notes;

(9) Stout backing sheet.

The papers comprising the 'permanent' file would be filed separately from those enumerated above and I will refer later to the method of compiling this file.

Certain items in the above list may call for comment and these are dealt with below.

Final notes

These would normally comprise one or more sheets of foolscap paper, on which would be entered particulars of the points to which the attention of the principal is directed by the clerk in charge of the audit or which the auditor desires to discuss with the directors or others with whom the accounts are agreed in final form. The notes would usually be drafted by the manager or senior in charge of the job from the rough memoranda prepared in the course of the audit referred to in item 8 above.

The notes should be drafted in such a way that their implications can be readily grasped, and there should be a clear division between points requiring a decision by the principal and routine matters which have been referred to the client and which he has agreed to deal with. An example of the latter type of item is a payment made which requires the authority of the directors, which has been mentioned to the secretary of the company and for which he has agreed to obtain a resolution of the board before the principal is asked to sign his report.

In drafting the final notes, sufficient space should be left for the principal or clerk in charge of the audit to record the decision reached on each point raised and the reason therefor. This may be achieved by leaving a space under each note or by writing the notes on half the width of the paper only, so that the notes of each decision taken may be entered opposite the appropriate item.

Many years after the audit has been completed it may be necessary to ascertain the facts on which the treatment of certain items in the accounts were based. It is of the utmost importance, therefore, that there should be a clear record of the explanations given by officials of a company and of other notes relating to questions raised by the auditor on the accounts.

(*To be continued.*)

APPENDIX

The appendix to Mr Duncan's paper, containing a balance sheet, profit and loss account, and the more important of the supporting audit schedules, is reproduced in the following pages.

A.B. MANUFACTURING COMPANY LIMITED

BALANCE SHEET, 31ST MARCH, 1951

1950 Authorised £	1950 £		Authorised in shares of £1 £	£
		SHARE CAPITAL Sch. A		
200,000	150,000	6 per cent. cumulative preference shares of £1 each, fully paid ..	200,000	150,000
200,000	120,000	Ordinary stock	200,000	200,000
£400,000	270,000		£400,000	350,000
		CAPITAL RESERVES Sch. B		
90,000		Premium on shares (including £160,000 premium on shares issued during year)	250,000	
26,400		Excess profits tax post-war refund	26,400	
25,000		Replacement of fixed assets ..	45,000	
	141,400			321,400
		REVENUE RESERVES Sch. B		
300,000		General	325,000	
		Future taxation:		
61,000		Income-tax, 1951-52	69,800	
10,700		Deferred taxation due to initial allowances	16,100	
371,700			410,900	
79,443		Profit and loss account	83,092√	
	451,143			493,992
	862,543			1,165,392
		CURRENT LIABILITIES AND DIVIDENDS		
309,524		Trade creditors and accruing expenses .. .. Sch. C	298,579	
55,000		Acceptances	—	
87,766		Current taxation .. Sch. D	103,922	
		Dividends, less income-tax: Sch. E		
1,237		Preference dividend accrued ..	1,181√	
16,500		Proposed final dividend on ordinary stock	15,750√	
	470,027			419,432
		Note: There were commitments for capital expenditure at 31st March, 1951, amounting to £80,000 (last year £50,000) Sch. †		
	£1,332,570			£1,584,824

1950 Cost £	1950 Depreciation £	1950 £		Cost £	Depreciation £	£
			FIXED ASSETS Sch. G			
185,132	12,385	172,747	Freehold land and buildings	200,282	13,325	186,957
262,627	73,496	189,131	Plant and machinery	280,110	91,782	188,328
22,989	12,277	10,712	Furniture and fixtures	25,125	13,241	11,884
15,013	9,271	5,742	Motor vehicles ..	15,201	10,881	4,320
£485,761	£107,429	378,332		£520,718	£129,229	391,489
		24,983	Loose plant and tools at cost less depreciation			26,694
		403,315				418,183
		57,047	TRADE INVESTMENTS Sch. H			67,353
			CURRENT ASSETS			
	499,364		Stocks on hand and work in progress .. Sch. J		545,394	
	364,595		Trade and other debtors and payments in advance Sch. K		416,763	
	8,249		Balances at bankers and cash in hand .. .. Sch. L		137,131	
		872,208				1,099,288
		£1,332,570				£1,584,824

} *Directors*

Auditors' report to the members of A.B. Manufacturing Company Limited

In our opinion and to the best of our information and according to the explanations given to us, the above balance sheet and annexed profit and loss account give a true and fair view of the state of the company's affairs as at 31st March, 1951, and of its profit for the year ended on that date. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for our audit. In our opinion the company has kept proper books of account and the above mentioned accounts, which are in agreement therewith, give in the prescribed manner the information required by the Companies Act, 1948.

Chartered Accountants.

A.B. MANUFACTURING COMPANY LIMITED

Profit and Loss Account
For The Year Ended 31st March, 1951

1950 £	1950 £			£	£
	166,348	Trading profit	Sch. Z		190,093
		after charging:			
		Directors' emoluments			
1,900		Fees as directors		1,900	
19,861		Remuneration for management services		21,234	
£21,761			Sch. Z3	£23,134	
37,008		Depreciation	Sch. G	39,860	
	4,000	Income from trade investments (gross)	Sch. H		4,600√
	170,348				194,693
		Taxation based on the profits for the year	Sch. D		
27,500		Profits tax		33,000√	
66,000		Income-tax including £69,800 (£61,000) reserve for income-tax, 1951-52 ..		76,000√	
	93,500				109,000
	76,848	Net profit for year			85,693
	75,045	Balance brought forward from previous year			79,443
	151,893				165,136
		Deduct:			
		Transfers to reserves:			
15,000		Replacement of fixed assets	Sch. B	20,000√	
20,000		General	Sch. B	25,000√	
5,000		Deferred taxation due to initial allowances ..	Sch. D	5,400√	
		Dividends, less income-tax:	Sch. E		
4,950		On 6 per cent. cumulative preference shares for the year ended 31st March, 1951		4,894√	
		On ordinary stock:			
11,000		Interim dividend paid of 10 per cent.		11,000√	
16,500		Final dividend proposed of 15 per cent.		15,750√	
	72,450				82,044
	£79,443	Balance carried forward			£83,092

A.B. MANUFACTURING COMPANY LIMITED

Audit Schedules

Year Ended 31st March, 1951

NOTE. The more important schedules supporting the balance sheet and profit and loss account are reproduced herein. In practice these schedules would be supported by further detailed schedules (as indicated by the symbol † appearing after the reference, e.g. Sch. A†), and would be preceded by the following:

1. Final notes for discussion with principal.
2. List of missing and defective vouchers with notes as to action taken.
3. Details of work done.
4. Extracts from minutes.
5. Trial balance.

The amounts shown on the schedules have been stated to the nearest £ to facilitate reproduction; in practice it is usually necessary to record the exact amounts involved.

The schedules have been printed with such ruled columns as are necessary to accommodate the figures. In practice the schedules would normally be written on suitable analysis paper, or would be typed copies of schedules prepared by the client, with handwritten notes thereon of work done, etc., by the auditor.

Reference symbols are normally recorded on the audit schedules in red or other contrasting colour. Certain schedules will contain details of items in the accounts together with notes of work done and the resulting conclusions reached by the auditor. In these cases it is often useful to record the auditor's notes in a contrasting colour so that the figures being examined are readily distinguished from the auditor's record of work done, etc. In the schedules reproduced the reference symbols and, where appropriate, the auditor's notes have been printed in red.

As the schedules deal with the composition of many items in the accounts they are a useful link in ascertaining that the accounts are in accordance with the books. This requirement will normally be met if the items in the trial balance, having been checked with the books, are traced to the accounts either direct or through the schedules, where several accounts make up one amount in the accounts. The symbol √ has been used to indicate that the item has been checked to the trial balance.

A.B. MANUFACTURING COMPANY LIMITED

A

Share Capital

31st March, 1951

	£	£
Authorised: Per clause 19 of Memorandum as amended by Resolution of Members dated 25th March, 1938:		
200,000 6% Cumulative Preference Shares of £1 each		200,000
200,000 Ordinary Shares of £1 each		200,000
		£400,000
		B/S
Issued 150,000 6% Cumulative Preference Shares of £1 each, fully paid		150,000 √
Ordinary stock, transferable in units of 5s.:		
As at 31st March, 1950	120,000	
Issued 30th April, 1950:		
80,000 shares of £1 each at £3 per share, converted into stock immediately after issue	80,000	
		200,000 √
		£350,000
		B/S

History of capital—see Sch. A1
Rights attaching to share capital—see Sch. A2
Work done:
Register balances:
Preference—Checked to dividend lists, Registers A-D and M-R at 31st December, 1950. Tested casts of dividend lists and agreed total with issued share capital.
Ordinary—Checked to dividend list at 30th September, 1950, Register A-K. Tested casts of dividend lists and agreed total with stock issued.
Capital issued during year—Tested allotment sheets 1, 3, 5 and 8 (out of 10) to stock register.
Checked casts of allotment sheets—number applied for, allotted, cash on application, cash returned, and balance due on allotment.
Checked calculations of cash returned and balance due on allotment (5 per page).
Reconciled with banking account. Terms of new issue verified with circular approved by board on 4/4/50.

A.B. MANUFACTURING COMPANY LIMITED

A1

History of Share Capital

31st March, 1951

	Preference		Ordinary		Premiums on Shares
	Authorised	Issued	Authorised	Issued	
	£	£	£	£	£
18th April, 1933 (date of incorporation)					
Authorised capital in					
Preference shares of £1 each	50,000				
Ordinary shares of £1 each			25,000		
Issued for cash at par		50,000		25,000	
25th March, 1938					
Authorised capital increased by	150,000		175,000		
Issued ordinary shares converted to stock					
	200,000	50,000	200,000	25,000	
30th April, 1938					
Bonus issue to ordinary stockholders				25,000	
Issue for cash:					
£100,000 preference at 26s.		100,000			30,000
£70,000 ordinary at 10s. per 5s. unit				70,000	70,000
	200,000	150,000	200,000	120,000	100,000
30th April, 1950					
Issue for cash:					
£80,000 ordinary at 15s. per 5s. unit				80,000	160,000
As at 31st March, 1951	£200,000	£150,000	£200,000	£200,000	£260,000

Sch. 1

A.B. MANUFACTURING COMPANY LIMITED

A2

Rights attaching to Share Capital

	Preference	Ordinary
Votes on a poll (Article 57)	1 vote per share only exercisable: (1) On resolution directly affecting rights of preference shareholders; *or* (2) In event of winding up; *or* (3) If preference dividend more than 6 months in arrear. For this purpose due 30th June and 31st December. (Dividend paid to 31st December, 1950.)	1 vote for each 5s. stock unit held.
Dividends (Article 35)	6 per cent. cumulative preferential dividend.	Balance of profits distributed after payment of preferenc dividend.
Winding up (Article 41)	Repayment in priority to ordinary stockholders of nominal amount of paid-up capital with arrears of dividend (less income-tax) whether declared or not.	Balance of surplus assets remaining after payment t preference shareholders.

B

A.B. MANUFACTURING COMPANY LIMITED

RESERVES 31ST MARCH, 1951

	As at 31st March 1950	Additions	Source of additions and deductions	Deductions	As at 31st March, 1951
	£	£		£	£
CAPITAL RESERVES					
Share premium account	90,000	160,000	Premium on shares issued during year		250,000 √
Excess profits tax post-war refund	26,400				26,400 √
Replacement of fixed assets	25,000	20,000	Profit and loss account		45,000 √
	£141,400	£180,000			£321,400
					B/S
REVENUE RESERVES					
General reserve ..	300,000	25,000	Profit and loss account		325,000 √
Future taxation:					
Income-tax, 1950-51	61,000		To taxation provision	61,000	
Income-tax, 1951-52		69,800	From profit and loss account		Sch. D 69,800
Initial allowances suspense account ..	10,700	5,400	do.		Sch. D 16,100
	£371,700	£100,200		£61,000	£410,900
					B/S

NOTES.

1. *Share premium account comprises:*

	Premiums	Amounts applied	Balance
	£	£	£
Premiums on issues prior to Companies Act, 1948	100,000	10,000 }	90,000
do. applied in writing off goodwill			
Premiums on issues since above	160,000	–	160,000
	£260,000	£10,000	£250,000
	Sch. A1		Above

2. *Excess profits tax post-war refund.*—Agreed amount per letter dated 26th January, 1949, from H.M. Inspector of Taxes. Wholly expended as capital expenditure since 1946 considerably in excess of £26,400.
3. *Revenue reserves.*—Balances at 31st March, 1950, all represent transfers from profit and loss account.

C

A.B. MANUFACTURING COMPANY LIMITED

TRADE CREDITORS AND ACCRUING EXPENSES 31ST MARCH, 1951

1950			1951	
£			£	£
	Trade creditors:			
270,744	Bought ledger balances		257,809 √	
2,359	Invoices not entered at 31st March, 1951..		1,291 √	
1,081	Sales ledger credit balances		1,419 √	
274,184				260,519
	Other creditors:			
9,851	Employees' provident fund deposits	Sch. C†	10,235 √	
526	Unclaimed dividends ..	Sch. C†	546 √	
—	Balance due on completion of purchase of land		1,572 √	
				12,353
24,963	Accruing expenses	Sch. C†		25,707
£309,524				£298,579
				B/S

Work done:

Trade creditors:

Checked company's list of balances with ledger, and compared major balances (about 70 per cent. in value) with suppliers' statements at 31st March.

Examined invoices filed in April for any March or earlier invoices—no additions to company's list, see Sch. C†.

Tested March and April invoices with stock records—see also notes relating to stocks, Sch. J†.

Other creditors and accrued charges:

Checked company's lists of provisions made, etc., as indicated on Schs. C† to C†.

Obtained certificate of inclusion of liabilities—see Sch. C†.

A.B. MANUFACTURING COMPANY LIMITED

TAXATION

D

31ST MARCH, 1951

	Balance at 31st March, 1950	Payments, etc., during year v.=Receipt seen	Provided or (released) For year	Provided or (released) Adjustments relating to prior years	Balance at 31st March, 1951	Balance at 31st March, 1951	Remarks
	£	£	£	£	£	£	
INCOME-TAX							
Schedule D, Case I							
1948-49—accounts to 31/3/48	47,536						
Less Paid on account	(45,000)	v. 2,986		450		—	Assessment seen
1949-50—accounts to 31/3/49	52,000			(527)	51,473		
Less Paid on account		v. 50,000			50,000		
						1,473	Agreed liability per Inspector's letter 1/5/51
1950-51—accounts to 31/3/50	61,000					61,000	Not yet agreed—company's computations show £60,536. No major items in dispute
1951-52—accounts to 31/3/51	—		69,800			69,800	Estimated—computations on Sch. D1
Schedule A							
1949-50	3,991	v. 3,991				—	
1950-51			4,213			4,213	Since paid
Tax deducted from dividends received .. .. Sch. H	—	2,070	2,070			—	
Surplus provision	139			(6)		133	
	119,666	59,047	76,083	(83)		136,619 √	
			(83)				
			76,000 P. & L.				
PROFITS TAX							
Year ended 31st March, 1949 ..	1,600	v. 1,097		(503)		—	Assessment seen
Year ended 31st March, 1950 ..	27,500	v.			27,500		Not yet agreed. Company's computation shows £27,402. No major items in dispute
Less Paid on account		23,900			(23,900)	3,600	
Year ended 31st March, 1951 ..	—		33,503			33,503	Estimated—computation on Sch. D2
	29,100	24,997	33,503	(503)		37,103 √	
			(503)				
			33,000 P. & L.				
INITIAL ALLOWANCES TAXATION SUSPENSE ACCOUNT	10,700		5,400			16,100 √	
Together	£159,466	£84,044	£114,400 P. & L.	and Sch. D1		£189,822	
Future income-tax	61,000					69,800	to Sch. B
Initial allowances reserve ..	10,700					16,100	to Sch. B
Current taxation	87,766					103,922	B/S

D1

A.B. MANUFACTURING COMPANY LIMITED

INCOME TAX, SCHEDULE D, CASE I, COMPUTATIONS 1951-52 AND 1950-51

Fiscal year			1951-52		1950-51
Based on accounts			31/3/51		31/3/50
		£	£	£	£
Profits per accounts			194,693		170,348
Add:					
Depreciation	Sch. G	39,860		37,008	
Legal fees	Sch. Z†	1,342		12	
Subscriptions	Sch. Z†	50		50	
Disallowable repairs etc.	Sch. Z†	1,460	42,712	8,578	45,648
			237,405		215,996
Deduct:					
Dividends received	Sch. H	4,600		4,000	
Profit on sale of fixed assets	Sch. G	5,209		4,591	
Net annual value		9,362		8,870	
Depreciation of loose plant and tools	Sch. G	12,529	31,700	11,862	29,323
			205,705		186,673
Profits tax	Sch. D2		33,434		27,402
			172,271		159,271
Capital allowances	Sch. D†				
Industrial buildings		1,700		1,700	
Initial		12,243		11,100	
Annual		18,458		16,420	
		32,401		29,220	
Less Balancing charges		7,045	25,356	4,471	24,749
			£146,915		£134,522
Rate of tax			9/6		9/-
Tax thereon			£69,785		£60,536
			say £69,800		say £61,000

Tax on initial allowances:		
Relief for year as above £12,243 at 9s. 6d.		5,815
Less Relief in prior years now utilised, £2,243 at 9s.	Sch. D†	1,010
		4,805
Increased reserve required due to increase in rate of tax	£10,700	
Less Utilised	1,010	
	£9,690 (1/18th thereof)	538
		£5,343
		say £5,400 to Sch. D

D2

A.B. MANUFACTURING COMPANY LIMITED

PROFITS TAX COMPUTATION — 31ST MARCH, 1951

	£	31/3/51 £	£	31/3/50 £
Profits per accounts ..		194,693		170,348
Add Items disallowed for income-tax ..		42,712		45,648
		237,405		215,996
Deduct Profit on sale of fixed assets ..	5,209		4,591	
Depreciation of loose plant and tools ..	12,529		11,862	
Capital allowances ..	24,749	42,487	22,322	38,775
		194,918		177,221
Franked investment income ..		4,600		4,000
		£190,318		£173,221

Gross relevant distribution .. Sch. E £59,000 same as last year

Net relevant distribution:

$$\frac{£190{,}318}{£194{,}918} \times £59{,}000 = £57{,}608$$

	9 months to 31/12/50 £	3 months to 31/3/51 £	Total £
Assessable profit ..	142,738	47,580	190,318
Tax thereon at 30 per cent. ..	42,821		66,611
50 per cent. ..		23,790	
Non-distribution relief:			
20 per cent. (£142,738—£43,206) £99,532 ..	19,906		33,177
40 per cent. (£47,580—£14,402) £33,178 ..		13,271	
	£22,915	£10,519	£33,434
		say	£33,503 to Sch. D

Note.—Aggregate non-distribution relief to date:

	To 31/3/50 £	This year £	To 31/3/51 £
At 15 per cent. ..	16,022		16,022
20 per cent. ..	5,900	19,906	25,806
40 per cent. ..		13,271	13,271
	£21,922	£33,177	£55,099

E

A.B. MANUFACTURING COMPANY LIMITED

DIVIDENDS — 31ST MARCH, 1951

	Gross £		*Tax* £	*Net* £	
6% CUMULATIVE PREFERENCE SHARES £150,000					
Accrued 31/3/50 ..	(2,250)	9/-	(1,013)	(1,237)	
Paid 30/6/50—board minute 16/6/50	4,500	9/-	2,025	2,475	
31/12/50— „ 15/12/50	4,500	9/-	2,025	2,475	
Accrued, 3 months to 31/3/51 ..	2,250	9/6	1,069	1,181	(B/S)
	£9,000		£4,106	£4,894	
				P. & L.	
ORDINARY STOCK					
Last year £120,000					
This year £200,000					
Final of 25% for year to 31/3/50	£30,000	9/-	£13,500	£16,500	
(Approved at annual general meeting 16/6/50, paid 30/6/50)					
Interim of 10% for year to 31/3/51, paid 30/9/50 (Board minute 4/9/50)	20,000	9/-	9,000	11,000	
Proposed final of 15%	30,000	9/6	14,250	15,750	(B/S)
	£50,000		£23,250	£26,750	
				P. & L.	

Work done:
Share register balances checked to dividend lists as indicated on Sch. E†.
Paid warrants examined in these cases.
Casts and extensions of dividend lists checked in these cases.

A.B. MANUFACTURING COMPANY LIMITED

Fixed Assets

31st March, 1951

	Cost				Depreciation provisions					Net amounts	
	As at 31st March, 1950	Additions	Cost of assets sold or scrapped	As at 31st March, 1951	Rate %	As at 31st March, 1950	Provided for year	Provisions relating to assets sold or scrapped	As at 31st March, 1951	31st March, 1950	31st March, 1951
	£	£	£	£	On written-down value on buildings	£	£	£	£	£	£
Freehold land and buildings											
A. Factory	100,984	Sch. G† 4,720		105,704	2	7,070	600		7,670	93,914	98,034 √
B. Factory	73,464	Sch. G† 7,580		81,044	2	5,315	340		5,655	68,149	75,389 √
Dwelling-houses	10,684	Sch. G† 2,850		13,534	–	—			—	10,684	13,534 √
	185,132	15,150		200,282		12,385	940		13,325	172,747	186,957
Plant, machinery and equipment					On cost						
High speed and precision plant	78,892	Sch. G† 9,846	(5,400)	83,338	12½	30,210	10,443	(2,314)	38,339	48,682	44,999 √
Other plant	137,565	Sch. G† 10,829	(4,100)	144,294	6⅔	24,895	9,418	(2,247)	32,066	112,670	112,228 √
Boilers	5,986			5,986	6⅔	3,424	402		3,826	2,562	2,160 √
Electrical plant	24,235	Sch. G† 6,809		31,044	5	6,206	1,324		7,530	18,029	23,514 √
Trucks and trolleys	15,949		(501)	15,448	12½	8,761	1,750	(490)	10,021	7,188	5,427 √
	262,627	27,484	(10,001)	280,110		73,496	23,337	(5,051)	91,782	189,131	188,328
Furniture, fixtures and fittings	22,989	Sch. G† 2,136		25,125	On written-down value 7½	12,277	964		13,241	10,712	11,884 √
Motor vehicles	15,013	Sch. G† 988	(800)	15,201	On cost 20	9,271	2,090	(480)	10,881	5,742	4,320 √
	£485,761	£45,758	(£10,801)	£520,718		£107,429	27,331	(£5,531)	£129,229	378,332	391,489
				B/S					B/S		
Loose plant and tools—at cost less depreciation—Sch. G1							12,529			24,983	26,694 √
							£39,860			£403,315	£418,183
											B/S

Depreciation charged to:	£	
Cost of sales	25,754	to Sch. Z1
„ loose plant, etc.	12,529	to Sch. Z1
Selling expenses ..	1,577	to Sch. Z1
	£39,860	
	P. & L.	

Summary of Profits (Losses) on Disposal of Fixed Assets

	Cost	Deprecia-tion	Written down value	Proceeds of sale	Profit/(Loss)
	£	£	£	£	£
Plant, machinery and equipment:					
High speed and precision plant	5,400	2,314	3,086	Sch. G† 3,000	(86)
Other plant	4,100	2,247	1,853	Sch. G† 6,364	4,511
Trucks and trolleys	501	490	11	Sch. G† 265	254
Motor vehicles	800	480	320	Sch. G† 850	530
	£10,801	£5,531	£5,270	£10,479	£5,209

Sch. Z

Work done:
- Title deeds of freeholds examined at company's bankers 7th May, 1951—details of deeds on permanent file.
- Deeds for site bought this year with company's solicitors—their certificate Sch. G†
- Additions and sales vouched and checked that authorised by board—see extracts from minutes and schedules of additions and sales—Schs. G† to G†
- Plant summaries checked with plant register.
- Registration books of vehicles examined—all in name of company—see Sch. G†

A.B. MANUFACTURING COMPANY LIMITED — G1

LOOSE PLANT AND TOOLS — 31ST MARCH, 1951

	£
Written-down value at 31st March, 1950	24,983
Additions	14,240
	39,223
Less Depreciation	12,529
	£26,694 to Sch. G

Loose plant and tools are written off over five years as shown below:

Year of purchase	Original cost	Yearly depreciation	Written-down value at 31st March, 1950	Depreciation for year	Written-down value at 31st March, 1951
	£	£	£	£	£
1947	10,546	2,109	2,109	2,109	—
1948	12,517	2,503	5,007	2,504	2,503
1949	12,015	2,403	7,208	2,403	4,805
1950	13,324	2,665	10,659	2,665	7,994
1951	14,240	2,848	—	2,848	11,392
			£24,983	£12,529	£26,694

A.B. MANUFACTURING COMPANY LIMITED — H

TRADE INVESTMENTS — 31ST MARCH, 1951

	31st March, 1950		Purchases		Total issued capital		31st March, 1951		Remarks	Income		
	Nominal	Book value	Nominal	Cost			Nominal	Book value		Rate	Gross	Tax
		£	£	£		£		£		year to 31/1/51	£	£
Midland Tool Co. Ltd. Ordinary £1 stock units	£20,000	33,593	6/10/50 5,000	v. 10,306	5% Preference Ordinary	100,000 250,000	V. £25,000	43,899✓	Quoted at 45s. = market value £56,250	7½% on £20,000 10% on £25,000	n 1,500 n 2,500	675 1,125
Alpha Manufacturing Ltd. Ordinary 10s. shares	5,000 shares	11,429			Ordinary	200,000	V. 5,000 shares	11,429✓	Not quoted; yield 5.2% on book value. Last accounts show dividend covered three times	12% for year to 31/12/50	n 300	135
Brass & Co. Ltd. Ordinary £1 shares	10,000 shares	12,025			7½% Preference Ordinary	300,000 400,000	V. 10,000 shares	12,025✓	Quoted at 18s. 3d. = market value £9,125 (see note below)	Interim 3% for year to 31/12/50	n 300	135
		£57,047		£10,306				£67,353			£4,600	£2,070
								B/S			P. & L.	Sch. D

Work done:
Stock and share certificates seen in secretary's office at 3 p.m. on 15th April, 1951, as indicated by symbol V.
Broker's note seen for acquisition of ordinary stock in Midland Tool Co. Ltd. as indicated by symbol v. Acquisition authorised by board resolution of 25/9/50.
Dividend warrants examined as indicated by symbol n.

Note.—Brass & Co. Ltd. have declared no final dividend in view of poor trading results. Copy of last balance sheet and profit and loss account on Sch. H†

J

A.B. MANUFACTURING COMPANY LIMITED

STOCKS ON HAND AND WORK IN PROGRESS 31ST MARCH, 1951

1950		
£		£
374,760	Raw materials	403,530
89,925	Work in progress	101,434
33,676	Finished stock	39,581
498,361		544,545√
1,003	Stock in transit (liability for this in trade creditors)	849√
£499,364		£545,394
		B/S

[N]otes on inventory procedures and work done: Sch. J1.

J1

A. B. MANUFACTURING COMPANY LIMITED

NOTES ON INVENTORY PROCEDURES AND WORK DONE

31st March, 1951

(1) Quantities:

(a) Raw materials and finished stocks: Quantities are extracted from continuous inventory records. See Sch. J† for notes on system of recording quantities and continuous stock checking procedures, which are satisfactory.
Fixed quantities shown in inventory with quantity records as indicated on Sch. J†. Carried out count of certain selected items and compared with quantities shown by quantity records. Results satisfactory, see Sch. J†.
Tested records of deliveries inwards and outwards immediately prior to and after 31st March and ascertained that these were correctly dealt with in the financial books in the appropriate financial year.

(b) Work in progress: Inventory compiled from 'work in progress' slips prepared by foremen showing actual work on hand at 31st March, 1951. See Sch. J† for notes on method of compiling inventory and control over issue and return of 'work in progress' slips and test of inventory with 'work in progress' slips.

(2) Prices:

(a) Raw materials: Larger items at actual cost, smaller items at 'average' cost ascertained as outlined on Sch. J†. Test of prices with invoices confirms that basis is being followed, see Sch. J†.

(b) Work in progress and finished stocks: At standard costs which are based on 'normal' output (see Sch. J† for further particulars). The standard costs include factory oncost but not general administrative expenses. See Sch. J† for comparison between 'standard' cost and actual cost of production for each month during year. Standard costs tested with costing data as indicated on Sch. J†. See Sch. J† for comparison between selling price and standard cost of selected items of finished stock. Results of tests confirm that work in progress and finished stock are valued at amounts approximating to actual cost including factory overhead expenditure and that the valuation is below realisable value.

(3) Slow-moving or obsolete stocks: Records examined for evidence of slow-moving items. Certain items listed for discussion with works director. See Sch. J† for these and notes of explanation given and general discussion on the subject. Position appears satisfactory. There appears to be a ready market for the company's products and the increase in the value of stock and work in progress is mainly due to increased prices.

(4) Checked extensions and cases of inventories and totals to summaries as indicated on Sch. J†.

(5) Certificate obtained from managing director as to existence, ownership and valuation of stock in trade and work in progress—see Sch. J†.

K

A.B. MANUFACTURING COMPANY LIMITED

TRADE AND OTHER DEBTORS AND PAYMENTS IN ADVANCE 31ST MARCH, 1951

1950 £			£
	Trade debtors:		
335,554	Sales ledger balances	Sch. K†	386,616√
646	Bought ledger debit balances	Sch. C†	777√
336,200			387,393
16,998	Other debtors and deposits	Sch. K†	17,482
16,397	Payments in advance	Sch. K†	16,888
369,595			421,763
5,000	*Less* Provision for doubtful debts ..		5,000√
£364,595			£416,763
			B/S

Work done
Sales ledger balances.
All balances over £100 and all balances in ledger trays 1 and 2 checked to list and extent of settlement since 31st March, 1951, noted.
Settlements per ledger tested to cash book see Sch. K†.
Lists cast and checked to summary; total agreed with control account.
Doubtful debts noted and discussed with credit manager—see Sch. K†. Provision of £5,000 seems ample. Bad debts written off during year £632; details seen tested with correspondence and director's authority.
Bought ledger debit balances.
Checked with ledger; all items over £50 enquired into and settlement traced.
Other debtors and deposits } Verified as indicated on the schedules referring to
Payments in advance } these items.

L

A.B. MANUFACTURING COMPANY LIMITED

BALANCES AT BANKERS AND CASH IN HAND 31ST MARCH, 1951

1950 £		£	£	£
	AT BANKERS—C.D. Bank Ltd., ..			
	Barchester branch:			
	Current account			
36,155	Balance per pass book and certificate	Sch. L†		170,163
29,182	*Less* Unpresented cheques, since cleared	Sch. L†		34,328
6,973	Balance per cash book ..			135,835√
	Unclaimed dividends—balances per pass books and certificate:	Sch. L†		
	Unclaimed dividend account		416	
	Preference No. 39 account		47	
	Ordinary No. 19 account		83	
526				546√
7,499				136,381
	CASH IN HAND:			
	Office petty cash—counted Sch. L†		200	
	Works petty cash—counted Sch. L†		50	
	Wages float—counted Sch. L†		500	
750				750√
£8,249				£137,131
				B/S

Z

A.B. MANUFACTURING COMPANY LIMITED

TRADING AND PROFIT AND LOSS ACCOUNT 31ST MARCH, 1951

			31/3/51 £			31/3/50 £
Sales	Sch. Z†		1,879,432√			1,699,872
Cost of goods sold ..	Sch. Z1		1,582,787			1,435,661
Gross profit			296,645 (15·8%)			264,211 (15·5%)
Selling expenses ..	Sch. Z1	49,437			44,172	
General and administrative expenses	Sch. Z2	62,324	111,761		58,282	102,454
			184,884			161,757
Profit on sale of fixed assets	Sch. G		5,209			4,591
			190,093	P. & L.		166,348
Income from trade investments	Sch. H		4,600	P. & L.		4,000
Profit before tax per published accounts			£194,693			£170,348

Z1

A.B. MANUFACTURING COMPANY LIMITED

COST OF SALES AND SELLING EXPENSES 31ST MARCH, 1951

		31/3/51 £	31/3/50 £
COST OF GOODS SOLD			
Purchases	Sch. Z†	821,683√	765,649
Less Increase in inventories		46,030	18,191
		775,653	747,458
Wages and salaries	Sch. Z†	690,515√	585,276
Light, heat and power		27,406√	25,209
Plant repairs and maintenance	Sch. Z†	35,095√	26,173
Depreciation	Sch. G	25,754√	23,569
" of loose plant and tools ..	Sch. G	12,529√	11,862
Repairs to property	Sch. Z†	1,999√	2,476
Vehicle expenses		501√	482
Insurance	Sch. Z†	9,013√	8,965
Sundry factory expenses	Sch. Z†	4,322√	4,191
		£1,582,787	£1,435,661
		to Sch. Z	
		£	£
SELLING EXPENSES			
Salaries	Sch. Z†	28,421√	27,865
Superannuation	Sch. Z†	1,240√	1,240
Advertising		9,165√	5,621
Travelling and entertaining	Sch. Z†	4,876√	4,321
Vehicle expenses		3,661√	3,067
Insurance	Sch. Z†	497√	481
Depreciation of motor vehicles ..	Sch. G	1,577√	1,577
		£49,437	£44,172
		to Sch. Z	

Note.—Increase in wages and salaries (cost of goods sold) mainly due to increase in rates of wages as a result of award effective from 1st June, 1950.

Z2

A.B. MANUFACTURING COMPANY LIMITED

General and Administrative Expenses 31st March, 1951

		31/3/51	31/3/50
		£	£
Salaries including director's commission	Sch. Z†	22,644 √	22,200
Superannuation	Sch. Z†	2,056 √	1,954
Light and heat		6,755 √	6,605
Insurance		1,357 √	1,357
Postages and telephone		7,102 √	6,998
Travelling and entertaining		889 √	901
Printing and stationery		5,528 √	5,218
Office equipment—hire and maintenance		1,038 √	946
Canteen		1,909 √	1,843
Legal and professional fees	Sch. Z†	2,172 √	697
Subscriptions and donations	Sch. Z†	383 √	363
Bad debts written off	Sch. Z†	632 √	291
Discounting charges	Sch. Z†	271 √	2,083
Directors' fees	Sch. Z3	1,900 √	1,900
Miscellaneous expenses	Sch. Z†	7,688 √	4,926
		£62,324	£58,282
		to Sch. Z	

Z3

A.B. MANUFACTURING COMPANY LIMITED

Directors' Emoluments 31st March, 1951

	Ordinary Stock Held	Fees	Salaries	Commission	Superannuation	Total
		£	£	£	£	£
A. (Chairman)	£100	500				500
B. (Managing Director)	£5,000	200	5,000	3,894	100	9,194
C. (Sales—Home)	£1,500	200	4,000		80	4,280
D. (Sales—Export)	£100	200	4,000		80	4,280
E. (Works)	£100	200	4,000		80	4,280
F.	£100	200				200
G.	£100	200				200
H.	£100	200				200
		£1,900	£17,000	£3,894	£340	£23,134

1950		
£1,900	Fees	£1,900
19,861	Other emoluments	21,234
£21,761		£23,134
		P. & L.

Relevant provisions of articles of association:
Article 81. Not more than twelve nor less than three directors.
82. Qualification 100 ordinary shares of £1 each.
84. Directors have power to appoint managing director and fix remuneration.
85. Fees—as voted by company in A.G.M.—above fees voted A.G.M. 15/6/42.
86. Directors have power to pay special remuneration for special services.

Reconciliation with previous year:	£
Emoluments disclosed for 1949/50	21,761
Add: Increase in managing director's commission due to increased profits	1,123
Increase in works' director's salary from £3,000 to £4,000 per annum as from 1st July, 1950	250
	£23,134

Work done:
Examined register of directors and agreed with above list.
Checked shareholdings with share register and register of directors' shareholdings
Agreed salaries with service agreements—see permanent file.
Checked calculation of managing director's commission (see Sch. Z†).
Statements seen addressed to secretary in accordance with Section 198

FINANCE AND COMMERCE

Stock markets have become rather steadier but the expectation of higher interest rates with resultant lower gilt-edged prices does not attract new buying. Further reaction may be seen before markets recover.

Special Resolutions

A matter which has arisen in connexion with the audit of The British Assam Tea Co Ltd raises a point of interest for the accountancy profession generally.

Notice of the annual meeting includes three resolutions, 'due notice of his intention to move which has been given to the company by a member'. Resolutions (1) and (3) are material to the issue. The resolutions are:

'(1) That Messrs Norris, Tucker & Co, Chartered Accountants, London, be not reappointed auditors of the company.

'(2) That Messrs Lovelock & Lewes, Chartered Accountants, Calcutta, continue in office and their remuneration be Rs300 per annum.

'(3) That Messrs Tribe, Clarke, Painter, Darton & Co, Chartered Accountants, of 43–44 Broad Street Avenue, Blomfield Street, London, EC2, be appointed auditors of the company in place of Messrs Norris, Tucker & Co, and their remuneration be 100 guineas per annum.

'Messrs Norris, Tucker & Co', the notice adds, 'have made representations to the company in writing with respect to the above intended resolutions, a copy of which is sent herewith.'

Auditors' Statement

The communication from the auditors runs as follows:

'The Companies Act, 1948, contains provisions in the case of non-reappointment of the retiring auditors of a company.

'In view of the resolution to be put at the annual general meeting, and to avoid any inference reflecting on our competency in carrying out our duties as auditors to the shareholders, we have requested the company to have the following representations notified to the members.

'We have acted as auditors to the company for upwards of forty years, during the whole of which time no question has arisen as to the efficiency of our audit, nor has there been any question of principle involved relating to the accounts, between the directors and ourselves.

'On completion of our audit of the 1950 accounts, we were verbally informed through a representative of the secretaries that it was the board's intention to effect a change in the appointment of auditors and suggesting that we should resign to facilitate this.

'As in our opinion there existed no reason for the change of auditors, other than the personal wishes of the directors, and that such resignation might be open to misconstruction, we refused to take this step.'

At the Meeting

The meeting was reported by the *Financial Times* as follows:

'Mr G. H. Hilliard, a director, who moved the resolutions, said that they had the board's approval. Messrs Norris, Tucker, originally a City firm, had, owing to bomb damage during the war, moved their business address outside London. This arrangement, explained Mr Hilliard, the board considered unsatisfactory since it was felt that the company's

LOVELL & CHRISTMAS LTD AND SUBSIDIARY COMPANIES
Consolidated Profit and Loss Account for the 52 weeks ended April 28th, 1951

1950 (adjusted) £		£	£
207,088	Trading and Manufacturing Profits before charging items deducted below		346,509
12,726	Income from Trade Investments		20,302
1,435	,, Quoted Investments		435
17,651	Exceptional Items (see Notes)		22,254
238,900			389,500
	Deduct:		
40,355	Depreciation of Fixed Assets	48,511	
7,851	Depreciation of Trade Investments	20,936	
—	Provision for Deferred Repairs	2,500	
2,455	Auditors' Remuneration (other than amounts fixed in General Meeting)	2,740	
50,661			74,687
188,239	**Group Profit before Taxation** (*subject to the items deducted below from Profit of the Parent Company*)		314,813
	Deduct Taxation (based on profits of the 52 weeks):		
25,870	U.K. Profits Tax	49,317	
21,607	U.K. Income Tax (less recoverable from Dividends)	50,923	
938	Overseas Taxation (less Dominion Income Tax Relief)	7,629	
48,415			107,869
139,824	**Group Profit after Taxation** (*subject to the items deducted below from Profit of the Parent Company*)		206,944
3,146	*Deduct* Proportion attributable to Minority Shareholders in Subsidiary Companies		1,069
136,678			205,875
+ 8,640	*Deduct* Profits retained by Subsidiary Companies attributable to the Parent Company		43,155
145,318	**Profit of the Parent Company** subject to the following deductions:		162,720
21,981	Debenture Interest	21,960	
5,000	Staff Bonus and Benevolent Fund	6,000	
13,706	Directors' Share of Profit under Article 89 (see Notes)	20,105	
40,687			48,065
104,631	**Net Profit of the Parent Company**		114,655
77,079	*Add* Balance brought forward from April 29th, 1950		86,191
181,710			200,846
	Deduct Appropriations:		
5,519	Debenture Stock Redemption Fund	5,540	
—	General Reserve	15,000	
45,000	Preference Dividend at 6% (Gross)	45,000	
45,000	Ordinary ,, at 6% (Gross)	45,000	
95,519			110,540
86,191	Balance carried forward by Parent Company		90,306
43,518	Balances carried forward by Subsidiary Companies		86,140
£129,709	Balance carried forward in Consolidated Balance Sheet		£176,446

The notes by the Directors on page 8 form an integral part of this Account.
(*Not reproduced*)

LOVELL & CHRISTMAS LTD

Balance Sheet at April 28th, 1951

1950 £		£	£
	Capital and Reserves		
	Capital:		
2,000,000	Authorized	2,000,000	
	Issued:		
750,000	6 per cent Cumulative Preference Stock	750,000	
750,000	Ordinary Stock	750,000	
1,500,000			1,500,000
	Capital Reserves:		
—	Capital Reserve	13,874	
90,029	Debenture Stock Redemption Fund as at April 29th, 1950, Appropriation at April 28th, 1951, and Interest on Fund Investments	95,905	
11,605	Debenture Stock redeemed	12,755	
101,634			122,534
	Revenue Reserves:		
162,500	General	177,500	
42,083	Future Income Tax (up to and including 1952–53 estimated liability)	31,971	
1,775	Exchange	1,775	
86,191	Undistributed Profits	90,306	
292,549			301,552
1,894,183			1,924,086
488,395	**4½ per cent First Mortgage Debenture Stock**		487,245
	Current Liabilities		
704,283	Bank Overdraft (secured)	498,945	
429,906	Creditors and accrued liabilities	442,559	
4,074	Debenture Interest accrued (secured)	3,879	
177,038	Subsidiary Companies' current accounts and deposits	175,548	
60,944	Profits Tax	20,899	
1,526	Income Tax (including 1/12th of 1951–52 estimated liability)	3,389	
	Dividends (less Tax):		
12,375	Preference for six months to June 30th, 1951	11,813	
24,750	Proposed Ordinary	23,625	
1,414,896			1,180,657
	The notes by the Directors on page 8 form an integral part of this Balance Sheet. (*Not reproduced*)		
£3,797,474			£3,591,988

1950 £		£	£
	Fixed Assets		
485,922	Freeholds and Leaseholds, at cost or valuation in April 1923	493,293	
57,130	*Less* Depreciation and Amortisation	61,975	
428,792			431,318
77,999	Plant and Machinery, Vehicles and Equipment at cost or net book value at May 1st, 1948	114,067	
20,843	*Less* Depreciation	34,523	
57,156			79,544
253,197	Goodwill at cost	253,197	
40,000	*Less* Amounts written off	40,000	
213,197			213,197
699,145			724,059
86,828	Debenture Stock Redemption Fund Investments at cost (market value £87,577)		92,687
174,918	Trade Investments at cost (*less* provision £21,397)		158,707
	Investments in Subsidiary Companies:		
1,221,065	Shares at cost	1,236,714	
374,708	Loans	254,572	
1,595,773		1,491,286	
279,489	*Deduct* Provision	279,489	
1,316,284			1,211,797
2,277,175			2,187,250
	Current Assets		
616,059	Stocks in Trade and Stores at the lower of cost and market value	430,846	
723,376	Debtors and Prepayments (*less* provision for discounts and doubtful debts)	837,859	
102,190	Subsidiary Companies' current accounts	101,184	
22,946	Quoted Investments (market value £9,862)	10,000	
55,728	Cash at Bankers, in transit and in hand	24,849	
1,520,299			1,404,738
£3,797,474			£3,591,988

auditors should be in the City, available at short notice when their advice was needed. Furthermore, the board thought it unsatisfactory that an unqualified clerk, aged 80, was invariably sent to the company's offices.

With those points in mind, the board decided to take the action proposed in the resolution when the auditors asked for an increase in their annual remuneration from 50 guineas to 100 guineas.

The resolution opposing the auditors' reappointment was passed unanimously. Another appointing Messrs Tribe, Clarke, Painter, Darton & Co, as the new auditors, with remuneration of 100 guineas a year, was approved with one dissentient.'

Centenary Accounts

This week's reprint gives the accounts of Lovell & Christmas Ltd, provision and canned goods merchants, importers, etc. With these accounts, the directors have dropped the separate profit and loss account for the parent company and have adopted the single column form that fulfils the dual purpose of parent and consolidated account. The accounts are accompanied by a lengthy series of notes which form an integral part. In the case of the profit and loss account, the notes dissect the 'exceptional items' and also provide the required information concerning the remuneration of the directors.

This, incidentally, is the centenary year of the business, which was started as a small partnership in 1851, for the purpose of selling West of England dairy produce in the London market. Under normal conditions, it would now be drawing supplies from every country in the world with an exportable surplus of basic foodstuffs. Much of the actual buying, however, is now carried on by the Ministry of Food.

Mr J. G. Elliott, the chairman, says that 'there is no doubt that the world production of butter, cheese and eggs available for export to this country is declining'. He sees the probability that we shall have to give increased prices to encourage overseas production.

Money Market

Treasury Bill applications totalled £330,105,000 on November 2nd and the allotment basis was 54 per cent with the average rate 10*s* 2·38*d* per cent. This week's offer is £260 million. There is no Treasury deposit receipt call.

LOVELL & CHRISTMAS LTD AND SUBSIDIARY COMPANIES
Consolidated Balance Sheet at April 28th, 1951

1950 (adjusted) £		£	£
	Interest of Stockholders of Lovell & Christmas Ltd		
1,500,000	Issued Capital		1,500,000
	Capital Reserves:		
55,675	Capital Reserve	93,670	
90,029	Debenture Stock Redemption Fund	95,905	
11,605	Debenture Stock redeemed	12,755	
157,309		202,330	
17,924	Subsidiary Companies' Profits prior to acquisition, *less* premiums paid for holdings	17,656	
175,233			219,986
	Revenue Reserves:		
198,944	General	223,172	
3,833	Statutory Reserve of a Foreign Subsidiary	2,468	
104,073	Future Income Tax (up to and including 1952–53 estimated liability)	118,922	
129,709	Undistributed Profits	176,446	
436,559			521,008
29,816	Foreign Exchange Fluctuations		44,002
2,141,608			2,284,996
53,455	**Interest of Minority Shareholders in Subsidiary Companies**		53,230
488,395	**4½ per cent First Mortgage Debenture Stock**		487,245
	Current Liabilities		
2,049,122	Bank Loans and Overdrafts (partly secured)	2,091,728	
816,156	Creditors and accrued liabilities	1,032,190	
4,074	Debenture Interest accrued (secured)	3,879	
22	Deferred Repairs	2,522	
82,614	Profits Tax	66,185	
22,136	Income Tax (including 1/12th of 1951–52 estimated liability)	46,836	
37,125	Dividends (*less* Tax)	35,438	
3,011,249			3,278,778
	The notes by the Directors on page 8 form an integral part of this Balance Sheet. (*Not reproduced*)		
£5,694,707			£6,104,249

1950 (adjusted) £		£	£
	Fixed Assets		
1,369,942	Freeholds and Leaseholds at cost or valuation or net value at May 1st, 1948	1,356,799	
204,175	*Less* Depreciation and Amortisation	207,263	
1,165,767			1,149,536
519,259	Plant, Machinery, Vehicles and Equipment at cost or net book value at May 1st, 1948	558,232	
232,114	*Less* Depreciation	217,214	
287,145			341,018
479,441	Goodwill and Trade Marks at cost	479,415	
43,000	*Less* Amounts written off	43,000	
436,441			436,415
86,828	Debenture Stock Redemption Fund Investments at cost (market value £87,577)		92,687
784,493	Trade Investments at cost	730,620	
317,571	*Less* Provision for Depreciation	338,507	
466,922			392,113
2,443,103			2,411,769
	Current Assets		
1,708,793	Stocks in Trade and Stores, at the lower of cost and market value	1,663,465	
1,398,564	Debtors, Prepayments and Income Tax recoverable (*less* provision for discounts and doubtful debts)	1,977,488	
35,758	Quoted Investments and Defence Bonds (market value £13,098)	13,820	
108,489	Cash at Bankers, in transit and in hand	37,707	
3,251,604			3,692,480
£5,694,707			£6,104,249

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Installation of Standard Costing System: Consultants' Fees

SIR, – Your correspondent, Mr K. G. Platt, in your issue of November 3rd, raised an interesting point showing the continually narrow and narrowing outlook of some Inspectors. When in fact does one ever undertake any activity which does not have an enduring 'effect' (benefit or not)? It is all a matter of degree.

In this instance, had the company engaged an accountant to work as a member of the staff, his salary would be revenue expense. The fee to the consultants is, in my opinion, the equivalent for a concern which does not wish to enlarge its own staff unduly.

The items to be capitalized in either case are the fittings, office machines, cabinets, etc. (if any), necessary to carry out the system.

Surely the next step to disallowing this charge is to inquire into the reports given after audits are carried out and, if there are any suggestions for improving the system of accounting, to disallow a proportion of the fee!

Yours faithfully,

Coulsdon, Surrey. L. P. CLEMINSON.

SIR, – Referring to Mr Platt's letter published in November 3rd issue of *The Accountant*, I would like to state that in the course of many years experience in consultancy work, I have never had any difficulty in getting the Revenue to appreciate the short-term asset value of expenditure on consultancy work.

The Inspectors of Taxes invariably agree that outlay of this nature is to be distinguished from expenditure on other more substantial assets. The payment is made for specialist advice and skilled services and,

whilst the benefit of this work is likely to be extended over several years, the real test lies in the ability of the client's own staff to keep the costing system running when the consultant has finished.

It is not unreasonable to expect the Inspector to require the expenditure to be spread over a short period of years if a large sum is involved. I have had experience of such arrangements for periods of three and, in one case, five years, but I have always been able to get the authorities to appreciate the intangible nature of the asset acquired by expenditure on consultancy work.

Yours faithfully,

UBIQUE.

Taxation Conference

SIR, – Your report (November 3rd issue, page 415) of my address to the recent Taxation Conference at Eastbourne was necessarily brief, but I wonder if you could make a correction regarding profits made by one member of a group of companies out of sales to another member. The recommendation [of the Millard Tucker Committee] in question is that where a company at the balance sheet date holds stock which it has purchased from another member of the same group, it should be allowed to value that stock at the cost to the company from which it has bought (i.e. it is only the unrealized profit on unsold goods that can be eliminated).

Yours faithfully,

London, EC2. H. A. R. J. WILSON.

Costing for Inflation

SIR, – I am very glad indeed that Mr A. H. Taylor, in his article in your issue of October 27th, has directed attention to the need to consider interest on capital as an element of cost, but I would like to suggest an extension to the idea which he has brought forward. He states:

> 'Whilst it is obvious that interest on loan capital must be paid or the business will be speedily brought to an end, it is not perhaps so immediately apparent that exactly the same consequences will ensue if the shareholders fail to be paid a return on their investment at least commensurate with that which they could have obtained on trustee securities.'

Mr Taylor then goes on to suggest the mechanisms by which 'the same consequences will ensue'.

I would like to suggest that although Mr Taylor is shooting in the right direction he has set his sights too low. The minimum which he suggests – namely, payment of a return at least commensurate with that obtainable on trustee securities – is, I believe, inadequate as a criterion. Moreover, the margin of inadequacy is not just a question of 1 per cent or 2 per cent as compared with trustee securities, but rather of the 'earnings' level expected by shareholders.

Mere payment of dividend is not sufficient unless it is paid out of what – by general consensus of market opinion – is deemed to be an adequate level of earnings. Should it be so paid continuously (i.e. not just for perhaps one exceptional year), then not only will the consequences which Mr Taylor envisages from non-payment ensue but also the raising of additional capital will not be practicable. In other words, the supplier of capital today does not confine himself to asking 'What rate per cent are you going to *pay* me on this new capital?'; he also asks, no less urgently, 'What rate of *earnings* are you going to show on this new capital?'

Except for the giants – 'blue chips' – of industry, the rate of earnings expected today is approximately 20 per cent subject only to taxation (i.e. after providing for depreciation).

In so far as capital can be found by bank overdraft, or other similar obligations, the position may to that extent be ameliorated but only if the equity position is sufficiently broadly based.

It seems to me, therefore, that from a practical point of view, what I may call the 'marginal practicability' of a new venture for a business can only be assessed after allowance for 'earnings' (considered as an element of cost) on something like the scale I have indicated.

Yours faithfully,

VITAMINS LTD

H. C. H. GRAVES,

Chairman and Managing Director.

London, W1.

French for 'True and Fair View'

SIR, – I think your three correspondents writing in your issue of October 27th have not quite hit the mark. A view is an *exposé*, and true is perhaps best rendered by *correct*. After consulting Larousse, I suggest: *exposé, justement et correctement, la situation financière de la société.*

Yours faithfully,

Edgware. H. EDWARDS, M.A.

SIR, – I refer to Mr Bourne-Paterson's inquiry (October 13th issue) for a French translation of 'true and fair view' of a company's affairs, as used in the Companies Act, 1948.

I think that the term may be analysed as meaning a statement or presentation which, in the opinion of the signing auditor, has been compiled with accuracy and impartiality. A suitable translation would be:

> *représentent impartialement et avec exactitude la situation de la société*, etc. . . .

It could be argued that *exactitude* does not need the qualification of *impartialité*, but this criticism might be applied also to 'true and fair'.

Yours faithfully,

London, EC2. LEONORA GILBERT, F.C.I.S.

THE ROYAL COMMISSION

INDUSTRY'S CASE PRESENTED

The Royal Commission on the Taxation of Profits and Income held another public session on November 1st and 2nd, this time at the Hall of the Society of Incorporated Accountants. Oral evidence was given by the Federation of British Industries, the Association of British Chambers of Commerce, and the National Union of Manufacturers, supplementary to their written evidence, under the heading 'General Social and Economic Questions'.

Federation of British Industries

The evidence on behalf of the Federation of British Industries was given by Mr S. P. Chambers, a director of Imperial Chemical Industries Ltd, and a former member of the Board of Inland Revenue. The chairman of the Commission, Lord Justice Cohen, said that it was not to be assumed that they had read all the evidence which had been submitted to the first Millard Tucker Committee, otherwise there would have been no point in having that committee. The Commission would consider that committee's proposals and take what action it thought fit. As to the main evil being the total weight of tax, their terms of reference precluded any solution, since any reduction of taxes on profits and income must be made good from the same source. Mr Chambers agreed but added that some of the evils complained of could not be removed at all unless there was a reduction of total tax.

The Proposed Excess Profits Tax

Asked what he thought of the Conservative Party's pledge to impose an excess profits tax, Mr Chambers said that a rate of 100 per cent would be wholly bad and worse than profits tax. If fortuitous profits, arising not from extra effort but purely from rearmament, could be segregated, there was something to be said for taxing them, but segregation was practically impossible. The chairman remarked that before the Commission concluded its deliberations the excess profits tax proposals would have taken a more concrete form and, by the time the Commission's report appeared, would be part of the existing tax structure. Asked about a possible capital gains tax, Mr Chambers objected that capital gains were largely a sign of inflation and were not true gains, while the administration of such a tax had proved unsatisfactory in America. It would produce a lot of money but there would be complementary income-tax concessions.

The Rhys-Williams scheme to amalgamate personal allowances and social insurance was unsound for two reasons. Family allowances were intended to relieve people according to their domestic needs, income-tax personal allowances to differentiate the total tax burden by reference to personal circumstances; that differentiation should grow as the total tax grew, and it was a mistake to mix it with the State's assistance to maintain a person's children.

Asked whether high taxes were detrimental to productivity, witness said they were detrimental over a long period – which was the case in this country. Profits tax on distributions was not an equitable way of inducing the ploughing back of profits, since it could not be deducted from dividends. The inflationary element which now existed in all profits should be cut out for ordinary accounting purposes, as well as taxation, then dividends would automatically fall. Simpler still would be a curbing of the inflation itself so that profits were not artificially inflated. In any case, one must find the real profit before taxing it, one must deduct the real cost of maintaining the fixed capital while earning the profit and to do that meant taking into account the fall in the value of money. In countries like Germany where there had been violent inflation, that had been axiomatic; the principle was the same here although the fall in money value was not so marked. It might be impracticable to apply the principle to all transactions and all individuals, but it could and should be applied to simple blocks of assets like the fixed plant and the stocks used in industry, for industry was at the base of all our prosperity and must not be so taxed that its productive capacity was run down. The position was serious, there were hardly more physical productive assets than immediately before the war.

Taxation and Economics

Mr Chambers was told that to exempt all non-remitted foreign profits would cost about £100 million, or about 8*d* in the £ on the income-tax. Nevertheless he thought it ought to be done to improve our competitive position abroad and as a matter of equity to the countries in which the profits were earned. In reply to Mr Crick, a member of the Commission, he said that using taxation as an intrument of economic policy was thoroughly unsound and had led to confusion in tax laws. Thus the Millard Tucker recommendation to increase initial allowances for those industries which were more important, was unsound. This did not mean that he was against earned income relief or against the relieving from tax of unremitted foreign profits, although the latter relief must admittedly rest on economic grounds. The initial allowance was unsound although the manner of its removal was unfortunate; the allowance distorted the profit and was too concentrated. Distribution charges on preference and ordinary dividends were inducing an artificial alteration in the capital structure of companies; driving them to raise money by debentures and loans which was an unhealthy trend.

Mr Carrington's Questions

Mr W. S. Carrington, F.C.A., a member of the Commission, said he understood there was more horse-power per worker in industry today than ever before; was it true that nevertheless the amount of fixed capital per worker had declined since 1938? Witness said this point would be looked into. He would also look into the question of how much of the pre-war plant still in use had in fact already been written off for tax purposes. After witness had agreed that the main trouble was inflation, Mr Carrington pointed out that the net profits tax yield was less than the contemplated budget surplus. From the inflation standpoint, would it be better to abolish the surplus by abolishing

profits tax? Witness replied that the Federation's aim was to make taxes more equitable and as a long-term matter would abolish profits tax, but the immediate need was to counter inflation itself.

Stock Valuation

Mr Carrington asked whether, if the base stock method of stock valuation had been consistently used, inflation would have produced the same tax difficulties for industry. Mr Chambers agreed that it would not. Asked was there a legal bar to such a method for tax purposes, witness agreed there was no specific prohibition in the Acts so that the case against it was weak and the taxpayer should have been given the benefit of the doubt. Mr Carrington said he did not think there was any accountancy principle which said the base stock method was wrong; some had adopted it for a long time, if not for tax purposes. Mr Chambers was not aware of any case in which the Inland Revenue's objection to the basis had been challenged; he agreed that if the basis could be shown to be good commercial practice no specific legislation would be required to make it permissible for tax purposes. He would look into it. Mr Millard Tucker revealed that a company had succeeded before the Special Commissioners in maintaining the application of the base stock method, having submitted professional accountancy evidence. He understood that the case was being taken further.

Depreciation of Fixed Assets

Dealing with the question of the adequacy of the allowances for the depreciation of fixed assets, Mr Carrington said: Was not the problem, when stripped of the wool which surrounded it, simply this: 'Shall the taxpayer be allowed relief on the build-up of reserves required for eventual plant replacement, or when he actually spends the money, or over the period of use of the asset thus bought?' Mr Chambers said that if the cost of replacement was allowed when incurred, inflation difficulties would not arise, but that was reasonable only where replacement was continuous year by year. For a business which replaced every ten or twenty years, such an allowance produced an overstatement of profit in the earlier years. Mr Carrington pointed out that such companies would build up reserves in those earlier years, there was nothing novel about that, indeed it was an older method than writing off existing plant. The Federation, however, appeared to regard this build-up for eventual replacement as merely a writing-off of existing plant so that the taxpayer would have the allowance even if he did not in fact replace. Mr Chambers agreed, saying it was right to deduct from receipts the using-up of existing capital, expressed at its present and not its historical cost. He did not know how much that would cost the Exchequer.

Mr Millard Tucker's Questions

Mr Millard Tucker said that much of the discussion that day related to matters which would be the subject of further memoranda by the Federation of British Industries and the Association of British Chambers of Commerce. As to incentive, could a witness be produced who could say for himself that P.A.Y.E. dissuaded him from working overtime and encouraged him to take days off. Mr Chambers said that although P.A.Y.E. might frequently be given as a reason, often it was only a secondary or even tertiary reason for not working overtime. The real difficulty lay in the jumps in rate on marginal earnings. Applying all the complicated income-tax principles (which might be quite right in the case of large incomes) to the modest incomes of workmen was a tremendous waste of manpower and effort. The small taxpayer did not understand these complicated adjustments. It would be better to have a fixed rate and to reduce regressive taxes such as those on tobacco which bore very hardly on people with small incomes. He was going into a possible method of introducing the current year basis of assessment which would not cause too much administrative difficulty, and would bear in mind the large number of individuals and partnerships which would be affected. On the taxation of foreign profit, Mr Millard Tucker said he did not agree that economic consequences should be ignored in the tax structure.

Association of British Chambers of Commerce

Mr F. Bower, for the Association of British Chambers of Commerce, then gave evidence. He said the Association's written evidence had in mind three main considerations: productivity, the preservation of businesses as such from tax exactions which were aimed at their owners, and an equitable sharing of the tax burden between income from profits and income from other sources. They were not interested in the linking of social security with income-tax; on fiscal grounds there was no argument for it. They did not favour the reintroduction of excess profits tax, even profits tax was better than that. A capital gains tax would have so many loop-holes and cause so many inequities that it would not be worth imposing. The chairman said the Commission was particularly interested in these two possible taxes because its terms of reference required it to make up out of taxes on income any reduction in the yield from existing taxes which its eventual recommendations might involve. Mr Bower considered that income taxes were passed on to the consumer. He thought the relief in respect of inflation for stock and fixed assets might cost something like 2*s* 6*d* in the £ on the income-tax, a thought which the chairman found rather terrifying. He expressed the claim in this way: A business was not taxed on its receipts but on the balance of its profits and gains. Receipts were expressed in today's £s, whereas some of the expenses were expressed in yesterday's £s. If the £ had fallen, those debit items should be revalued in today's £s to produce the true taxable profit. No counter adjustment should be made for the increase in the total value of the business. However, in arriving at balancing charges, the ceiling of original cost might be removed.

National Union of Manufacturers

Mr W. R. Clemens, for the National Union of Manufacturers, said he had little to add to the Union's memorandum. He did not favour excess profits tax, and Sir Leonard Browett, who also gave evidence, agreed and added that he did not like the idea of a capital gains tax at all. Asked by Mr Crick if he agreed that the profits tax fell on undistributed profit, Sir Leonard pointed out that there was nowhere else it could fall. The chairman said the Commission might be able to make recommendations which, though impracticable now, could be adopted when the economic position of the country improved.

SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

TWELFTH ANNUAL DINNER

The South Eastern Society of Chartered Accountants held their twelfth annual dinner at the *Hotel Metropole*, Brighton, on Friday, November 2nd, 1951. Mr Arthur Jolly, J.P., F.C.A., President of the Society, presided over a company of more than 280 members and guests, who were received by him and by Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among the guests were Alderman Eric Simms, J.P., Mayor of Brighton; The Rt Rev Bishop H. Crotty, M.A., D.D., Vicar and Rural Dean of Hove; Mr C. Ernest Link, C.C., Chief Commoner of the Corporation of London; Mr T. H. Tosh, H.M. Inspector of Taxes; and

Messrs F. V. Arnold, F.S.A.A. (*President, Incorporated Accountants' District Society of Sussex*); D. De La Rue (*Southampton Students' Society*); G. D. F. Dillon, B.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); H. G. Downer, M.B., CH.B., D.L.O. (*President, Brighton and Sussex Medico-Chirurgical Society*); T. Fleming Birch, F.C.A. (*President, Leicestershire and Northampton Society of Chartered Accountants*).

Messrs A. H. French, F.A.I. (*Chairman, Royal Institute of Chartered Surveyors, Sussex Branch*); W. B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); A. F. Kent, F.C.A. (*President, East Anglian Society of Chartered Accountants*); R. Lee (*President, Institute of Bankers, Brighton Centre*).

Messrs M. F. Litchfield (*Sussex Students' Society, Brighton Branch*); A. W. McCully (*President, Sussex Law Society*); A. S. MacIver, M.C., B.A. (*Secretary, The Institute of Chartered Accountants in England and Wales*); W. Mercer, L.D.S., R.C.S.E. (*Chairman, Brighton and District Section, British Dental Association*); J. Colin Montgomery Williams, F.C.A. (*President, South Wales and Monmouthshire Society of Chartered Accountants*).

Messrs M. F. Pickett (*Sussex Students' Society, Hastings Branch*); E. C. Sherwood (*Official Receiver*); F. R. Steele, F.S.I., M.T.P.I. (*Chairman, South Eastern Society of Architects*); H. D. S. Stiles, F.R.I.C.S. (*President, Brighton and Hove Auctioneers' Association and Chairman, Sussex Branch of the Chartered Auctioneers and Estate Agents Institute*); N. W. Watkins, F.A.C.C.A. (*Vice-president, South Eastern District Society of the Association of Certified and Corporate Accountants*).

Serious Inflation

Replying to a toast to 'The Institute of Chartered Accountants in England and Wales', proposed by Mr C. Ernest Link, C.C., Chief Commoner of the Corporation of London, Mr C. W. Boyce, C.B.E., F.C.A., President of the Institute, said in the course of his speech:

Well, ladies and gentlemen, the general election is over and we are to have a change of government. I cannot say that I envy the new Administration and particularly the Chancellor of the Exchequer in the task which lies before them. Perhaps the late Chancellor is inwardly not sorry that someone other than himself will have the unenviable task of solving the country's financial and economic problems.

None of us, he continued, can view the present period of serious inflation with equanimity. I had something to say on this topic at Torquay, and I wish I could prescribe the cure. A reversal of the present tendency can only be brought about by increasing the rate of production, and this can only be obtained by more austerity on the part of all of us. To combat inflation, increased production must be the essential consideration to any increase in wages, otherwise we are going to perpetuate the vicious circle of too much money chasing too few goods.

Of one thing I am personally convinced, that nationalization of industry is not the answer to the problem. The greatness of this old country of ours was built up by the private enterprise of our predecessors and by the initiative and efficiency of the proprietors of hundreds of businesses of modest dimensions and, in my view, it is regrettable that, through circumstances over which the proprietors of those businesses have no control, particularly estate duty, many of them have found it necessary to sell out to, or amalgamate with, large public companies carrying on the same trade. But, whether carried on in large or small units, I believe that private enterprise, if left unharassed, can and will surmount the difficulties which beset this country. (Applause.)

Something to Hold on to

The toast of 'Our Guests' was proposed by Mr P. D. Irons, B.COM., A.C.A., F.C.W.A., and acknowledged by Mr T. H. Tosh, H.M. Inspector of Taxes.

The Rt Rev Bishop H. Crotty, M.A., D.D., proposing the toast of 'The South Eastern Society of Chartered Accountants', paid a high tribute to Mr Jolly and to the profession, during which he said:

Mr President, the accountancy of the human spirit is the only type I know about. What the average man wants today – what he will always want – is something to work for, something to look forward to, something to believe in, something he can be proud of: and if somehow or other, by some means, we can get that kind of belief back into our common life, then it does seem to me that the average man will indeed have something to hold on to. (Hear, hear.)

In the course of his reply, Mr Jolly welcomed members of other district societies, expressing the pleasure that they all felt at being members of a great profession and he paid a tribute to the excellent work done by the Secretary of the Society, Mr A. G. J. Horton-Stephens, A.C.A.

Entertainment was provided by Miss Sylvia Welling, with Mr Edward Clifford at the piano.

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NOTES AND NOTICES

Personal

As from October 1st, 1951, Messrs HAROLD MOORE, ROBERT HUDSON TAYLOR, WALTER FOWLER WHITING, FRANCIS GEORGE ARTHUR COOPER and ALAN BERTRAM SANDAL have by previous arrangement retired from the firm of PALMER, MOORE & WHITING, Accountants and Auditors, of Oakham, in the County of Rutland. The practice is being continued by the remaining partner, Mr DENIS PAUL GIUSEPPI, A.C.A., under the style or firm name of PALMER, GIUSEPPI & Co, Chartered Accountants, at the same address as hitherto.

MESSRS FORRESTER, BOYD & Co, Chartered Accountants, of 26 South St Mary's Gate, Grimsby, and of Louth, Scunthorpe and Brigg, announce with regret the retirement from the partnership of Mr HARRY BERRY, F.C.A., on the grounds of ill health, as from September 30th, 1951. The practice will be continued under the same name and at the same premises by the remaining partners.

MESSRS GEO. E. CRONE & Co, Accountants and Auditors, of Whitley Bay and Rothbury, announce that the senior partner, Mr GEO. E. CRONE, A.A.C.C.A., died on Sunday, October 28th, after a long illness. The practice will be carried on by the remaining partner, Mr F. W. SIMPSON, A.A.I.A.

MESSRS ARTHUR E. GREEN & Co, Incorporated Accountants, of 30 Finsbury Square, London, EC2, announce that as and from October 29th, 1951, they have admitted into partnership Messrs E. M. LOMAX, F.S.A.A., W. M. LOMAX, F.S.A.A., and G. W. PICKWORTH, F.S.A.A., A.C.I.S. The name of the firm and the address remain unchanged.

MESSRS A. J. PAUL & Co, Incorporated Accountants, announce that as from November 8th, 1951, their practice will be carried on at 1 Green Lane, Redruth. The telephone will remain Redruth 185.

The Chartered Accountant Students' Society of London

Mr Basil Smallpeice, B.COM., F.C.A., Financial Comptroller, British Overseas Airways Corporation, will give a lecture on 'The accountant in industry', on Monday next, November 12th, at 5.30 p.m., with Sir Harold Barton, F.C.A., Vice-president of the Society, in the chair. Owing to the work of redecoration of the Institute's Oak Hall, the meeting will be held in Winchester House, corner of London Wall and Old Broad Street, EC2.

London and District Society of Chartered Accountants

A lecture on 'A prospectus: from the point of view of the Stock Exchange', will be given by Mr F. R. Althaus, a vice-chairman of the Quotation Committee, London Stock Exchange, at 6 p.m., on Tuesday next, November 13th, at the Hall of the Chartered Insurance Institute, Aldermanbury, London, EC2.

Approved Auditors: Friendly Societies

The Registrar of Friendly Societies has issued a further supplementary list of ninety-six names of approved auditors who have been appointed since the revised list of January 1st last. The names of nineteen whose appointments have been discontinued are also given. The last supplementary list was issued in June.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 11TH, 1876

To the Editor of 'The Accountant'

Average Statistics

SIR, – The heading of these letters will serve to show always the true point at issue.

I cannot help 'W. A.'s' regret. I meant to cause him regret; and all who like him – if there be any – mix up the correctness of the figures taken by the Society of Accountants from the Comptroller's returns with the other question of the inferences to be drawn from those figures; and the further dreadfully complicated question as to what conceptions are to be woven in with the Comptroller's returns, and under what and whose conceptions we are to read them.

It does not at all matter as to whether I am or not 'very badly informed, or unable to appreciate what is fair and reasonable'. Who cares for my mental condition? But it does matter as to whether the figures given by the Society of Accountants are correct or not, and during all this correspondence 'W. A.' has not ventured to point out an error in those calculations. Surely 'W. A.' can prove their incorrectness or admit their correctness. I submit that in common candour he should now do one or the other; we could then proceed to discuss the next question and the next. But until the correctness of the Society's *figures* is settled, the discussion of any inferences from them is perfectly futile.

Yours, etc.
T. Y.

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The Accountant

ESTABLISHED 1874

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RETURN TO ORTHODOXY?

FOR a long time now, the so-called orthodox fiscal weapons for controlling the economic situation have been out of fashion and physical controls have taken their place. The operation of the full gold standard combined with a careful use of the bank rate and a judicious 'open market' policy were the approved methods of dealing with inflationary pressure or the unused resources caused by deflation up to 1931. In essence, these methods depend entirely on a pricing system operating in a free market. Both rates of exchange and rates of interest are thereby determined by demand and supply. In the case of the latter rates, the supply of credit was determined largely by the Governor of the Bank of England acting with the agreement of the Treasury. Of recent years, there has been a tendency to treat the demand-supply-price mechanism with some degree of suspicion. Moreover, the National Debt, both funded and unfunded, is far larger than it was twenty years ago and the Government has to a certain extent a vested interest in a low bank rate. And, in any case, the gold standard is only a memory and so the semi-automatic checks to inflationary pressure are no longer possible.

Even before the dissolution of Parliament, the CHANCELLOR OF THE EXCHEQUER had given hints of further restrictions in credit. The manifesto put forward by the Conservative Party contained these words:

> 'The currency has been inflated. If first needs are to be met first; wants which are not necessities must be limited. Borrowing can be restricted in a variety of ways including changes in the rate of interest.'

Prompt action on these lines has been taken by the raising of the bank rate and its partial reinstatement as an instrument of fiscal policy. The *modus operandi* of these fiscal methods is of considerable interest, as are also the arguments put forward in favour of fiscal weapons as opposed to the other kind, i.e. physical ones.

In the main, the classical method of influencing the economic atmosphere was by the use of two instruments. The first was by regulation, on the part of the central bank, of the amount of credit in existence. The second was the control of the rate of interest charged on bank credit of all kinds. This control was exercised by variations in the bank rate, i.e. the Bank of England's rediscount rate. Nowadays the commercial banks maintain cash reserves equal to one-twelfth of their deposits; the rule used to be one-tenth. By altering, as conditions were considered to require, the quantity of cash on which banks founded their credit operations, the Bank of England could (and still can) control the amount of these operations. 'Open market' transactions, by which the Bank controls the cash reserves of commercial banks, are familiar to all students of economics. A sale of Government securities by the

Bank must necessarily reduce the balances held there by the commercial banking system and therefore involves some credit restriction; a purchase of such securities will increase banking balances. Under the old system, the central bank in consort with the Treasury would give a stimulus to credit expansion when business activity showed signs of slackening. Conversely, if inflationary pressures appeared to be developing it would take steps to contract the volume of bank credits. So much for the Bank's power to vary the volume of credit.

But it could do more than this. The manipulation of the bank rate gave the Bank power to adjust the price of credit. Traditionally, changes in the rate were made primarily to correct or modify the influences of overseas trade and foreign exchange movements. A rise in the bank rate tended to attract foreign money with a consequent improvement in the sterling rate of exchange. It would also act as a deflationary measure by discouraging borrowing from banks for commercial purposes. These effects followed because, unlike the conditions now obtaining, all other rates of interest followed closely any changes in the bank rate. This principle applied equally to rates paid on deposits, to rates charged on commercial loans and overdrafts, and those on sums lent to the money market at call or short notice. As the discount market operates mainly on money borrowed from banks, it follows that under an integrated system of interest rates, those at which the market tendered for Treasury bills and similar securities, were also highly correlated with the bank rate. With its control of credit by open market operations and its regulation of all other rates of interest through the bank rate, the central bank was in a unique position to set in motion either an inflationary or deflationary policy. The low rates of interest prevailing in the early 'thirties were a potent factor in the creation of a boom in building which heralded the economic recovery culminating in the partial boom of 1937. A low bank rate does not appear able to stimulate sufficient capital investment to create a state of full employment; it needs to be supplemented by other government action. It is highly probable, however, that a high bank rate, if aided by credit restrictions will have a powerful disinflationary effect. This is the hope which has prompted the rise, albeit a modest one, which was announced on November 7th.

Turning for a moment to a consideration of the physical methods of controlling the volume of credit which have been in favour during the last few years, we see that these have mainly taken the form of directives to banks on the lending policy they should follow, the sifting of capital issues, and general budgetary methods. It is argued by the supporters of these methods, that a pricing system might well rule out capital projects which are desirable in the national interest but whose return on capital is likely to be small, and allow profitable projects such as new cinemas and greyhound racing tracks to go forward. This much has to be accepted. At the same time it is equally clear that these methods have failed to restrict credit on the scale demanded by current circumstances. Much investment which does not call for the use of bank credit can be undertaken with but little let or hindrance so long as the general rates of interest are kept low. There has been a rigid control of building operations but no direct control whatever of the purchase of plant and machinery unconnected with new buildings. An increase in interest rates might well act as a salutary check on some of this buying.

It seems likely that the Government intends to make a determined attack on the present inflationary situation, which, indirectly, is one of the main causes of the repeated balance of payments crises. To this end the rise in the bank rate is to be allowed to work itself out, if not fully, in the old way, at least to a fair degree. Rates of interest generally will be allowed to rise, and if necessary, the supply of credit will be restricted. Prior to Wednesday, November 7th, the Bank of England was willing to buy unlimited quantities of Treasury bills when the discount market was short of cash at the very low rate of $\frac{1}{2}$ per cent. This situation no longer obtains. Some criticism has been voiced to the effect that the rise in the bank rate should have been more pronounced. The important thing, however, is that fiscal methods are again to the fore and the mere threat of further measures may well be a sufficient deterrent. It is true that the cost to the Treasury of financing the floating portion of the National Debt will rise but this may be only a minor disadvantage in comparison with the benefits which should accrue.

DISTRIBUTION OF CAPITAL PROFITS

by SIDNEY I. SIMON, Barrister-at-Law

CIRCUMSTANCES may arise in which a company makes a profit which is not subject to income-tax. An example might be the sale of its business premises at a price greater than the original cost with a pleasant absence of any suggestion from the Revenue that in selling the property the company was engaged in an adventure in the nature of a trade. In this article it is proposed to consider the position of both the company and the shareholder if the company wishes to pass on the capital profit to its members.

Deduction of Tax

The first question which arises is whether the company may deduct tax from any dividend declared out of a capital profit. General Rule 20 of the Income Tax Act, 1918, reads:

> 'The profits or gains to be charged on any body of persons shall be computed in accordance with the provisions of this Act on the full amount of the same before any dividend thereof is made in respect of any share, right or title thereto, and the body of persons paying such dividend shall be entitled to deduct the tax appropriate thereto.'

Section 7 (1), Finance Act, 1931, provides that General Rule 20 is to be construed as *authorizing the deduction of tax* from the full amount of a dividend paid out of:

(i) profits and gains which have been charged with tax; or

(ii) profits and gains which would have gone into the income-tax computation, if the computation had been made by reference to the 'actual' profits instead of the profits of the preceding or other year.

It is to be noted that the company is neither entitled nor authorized to deduct tax from a dividend which is not made out of 'profits and gains'. If, then, the company distributes a capital profit to the shareholders in the form of dividends, it is not entitled to deduct tax from such dividends, since the distribution is not made out of profits and gains charged or chargeable with tax.

In *Neumann v. C.I.R.* ([1934] 18 T.C. 332; 13 A.T.C. 1), Lord Tomlin said:

> 'It is not disputed that if a dividend is paid out of the profits produced by the sale of a capital asset, it is not made out of profits or gains charged on the company and, therefore, no deduction from the dividend is authorized. . . .'

Income-tax and Sur-tax

It is now necessary to consider the position of a shareholder who receives a dividend in full paid by the company out of a capital profit. It is well settled that such a dividend attracts no liability, either to income-tax or to sur-tax, in the shareholder's hands. In *Gimson v. C.I.R.* ([1930] 15 T.C. 595; 9 A.T.C. 170) a dividend was paid out of a fund which consisted partly of a capital profit and partly of accumulated income which, under the law as it then stood, had escaped assessment to income-tax in the company's hands. (This case was before the Finance Act, 1931.) It was not disputed by the Crown that that part of the dividend which was paid out of capital profits was not to be included in the recipient's total income for the purposes of sur-tax.

Further, in *Neumann v. C.I.R.*, after pointing out that tax should not be deducted by a company from a dividend paid out of a capital profit (quoted *supra*), Lord Tomlin continued:

> 'and the dividend itself is not liable to be taken into account in fixing the liability to sur-tax of the shareholder'.

Profits Tax

Even though the dividend is not chargeable to income-tax or to sur-tax upon the shareholder, nor may the company deduct tax on payment of the dividend, yet since the Finance Act, 1947, the profits tax liability of the company is affected. Section 36 (1) of that Act provides that there shall be deemed to be a distribution wherever:

(*a*) any amount is distributed directly or indirectly by way of dividend or cash bonus to any person; or

(*b*) assets are distributed in kind to any person; or

(*c*) where the trade or business is carried on by a body corporate the directors whereof have a controlling interest therein, an amount is applied, whether by remuneration, loans or otherwise, for the benefit of any person.

A distribution of a capital profit would appear to be caught by Section 36 (1). Even though the capital profit would not of itself be liable to income-tax, sur-tax or profits tax, it seems that Section 36 (1) is drawn sufficiently widely to require the inclusion of such a distributed profit in gross relevant distributions to proprietors.

This view is confirmed by a decision of Mr Justice Harman on July 13th, 1951, in *Lamson Paragon Supply Co Ltd v. C.I.R.* (30 A.T.C. 246).

The *Lamson Paragon* Case

At a general meeting on March 19th, 1947, the company resolved to pay a special dividend or bonus payable out of its capital reserves in addition to the final ordinary dividend for the year ended January 31st, 1947. The resolution provided that the special dividend should be satisfied by a distribution of shares in another company, but the resolution did not expressly state any period to which this distribution was to be related. The question, *inter alia*, for the Special Commissioners was whether the distribution was for the year to January 31st, 1947, or for the year to January 31st, 1948, and they decided in favour of the latter period. The company expressed dissatisfaction and demanded a case.

In the High Court the company argued a further point which had not been taken before the Commissioners. This was that, since the profits from which the special dividend was paid were not assessable to income-tax, the special dividend was not a relevant distribution for profits tax purposes. This point failed, and the following extracts from the judgment of Mr Justice Harman make clear the reasons:

'Now before the appeal came on here, but after the case was stated, the taxpayers gave notice that they intended to raise a further and, I think, a fundamental point and that was this: that a dividend or a distribution of profits not assessable to income-tax is not a distribution relevant for profits tax. In other words, say they, you only take into account, in charging profits tax, income which in its nature is assessable to that tax.

'That point has been argued before me and the upshot if it succeeded would be this, that the distribution, so to call it, in question was not a relevant distribution for the purposes of the Act.'

Distributions

The judge then referred to Section 30, Finance Act, 1947, and the system of non-distribution relief in subsection (2), and the distribution charge in subsection (3), and continued:

'Now that is, I think, a very tautologous way of saying that if in any year you distribute more than your current profit you will lose any right to relief you had obtained in a previous year, and that is all that the proviso to subsection 3 does; but it is expressed as if it were an additional tax, and that is really the point made by the appellants. What they say is this: if you look at the words of subsection (3) you find that there shall be charged, in addition to the other profits tax, profits tax at (then) $7\frac{1}{2}$ per cent. And, says (Counsel) what is being taxed there is the excess over the current profits of the distributed amount; in other words the profits from former years are being taxed. But if, says he, those profits are profits which never could be brought into charge to income-tax or to profits tax in the first place, they cannot be the subject-matter of the additional tax either, and therefore the distribution which represents those cannot be relevant.

'The answer of the Crown is this, that, in effect and in fact, these are not two taxes at all, but subsection (3) of Section 30 merely withdraws, in certain cases, the relief given in subsection (2) of the same section. It is not really an additional tax at all, it is merely saying that if, after having had relief for non-distribution, you over-distribute (so to speak) in the subsequent year, you shall lose the benefit of your relief. If there has been no relief the subsection does not come into operation at all, and the company does not pay the so-called additional tax.

'Now in my judgment the Crown's view of the matter is the right one. It seems that what you are taxing for profits tax is the Schedule D tax for the year and no other sum; but when you wish, under this complicated system, to find out whether you are going to tax it at the higher or at the lower rate, then you look not at the profit but at the distribution, which is quite a different thing. Indeed, it is practically never to be found that a company distributes exactly what its profits are; it may be distributing more, and it usually distributes much less. I think the Crown is right in saying that although this is expressed as being an additional tax it is not truly that at all. It is merely a withdrawal of a privilege obtained in a year when the company was modest in its distribution. If that be so really, the first point taken by the taxpayer, which was not discussed before the Commissioners, seems to rest on a fallacy, or rather to rest on a stress which subsection (3) of Section 30 will not bear, because you cannot really get out of that subsection an additional tax on this excess distribution. The tax does not arise at all, except as a withdrawal of a relief already given. In my opinion, therefore, this £125,000 is a relevant distribution for the purposes of the Act.'

Conclusion

If a capital profit is distributed by a company to its members, the position may be summarized thus:

(i) The company has no authority to deduct tax from the dividend.

(ii) The recipient of the dividend is not liable to income-tax or sur-tax upon it.

(iii) The distribution is a relevant distribution for profits tax purposes.

AN ACCOUNTANT'S WORKING PAPERS - II

by S. M. DUNCAN, F.C.A.

Lists of missing vouchers

THE development of modern techniques in auditing has resulted in increasing stress being laid on a critical examination of the systems of internal check in operation. The auditor's examination of transactions in detail tends more and more to be limited to test examinations of selected items, to substantiate that the system of internal check said to be in operation is in fact being operated satisfactorily. As all items in the books are not checked it becomes increasingly important to detect any irregularity in the items selected for examination.

Where vouchers were missing in support of items selected for examination the papers should contain lists of these showing the manner in which any of the entries were subsequently substantiated. The lists of these vouchers should appear early in the schedules, so that the principal's attention is directed to them.

Details of work done

These particulars may take the form of a statement under the heading of each of the company's books or records, of the work done thereon by the auditor or his staff, the persons carrying out the work initialing those items for which they are responsible.

To some extent this list will be a duplication of information given in the schedules supporting the accounts regarding work done to substantiate figures appearing in them. It is, however, desirable that the list of work done should be complete and that the schedules supporting items in the accounts should indicate the work done in relation to each item in its appropriate context.

In some cases a programme of work may be laid down to be followed year by year, sometimes with variations. This programme would be initialed by the person doing the work and would render unnecessary the compiling of a list of work done. In such a case it may be convenient to include the audit programme as part of the 'permanent' file.

It is outside the scope of this paper to enter into a discussion of the relative merits of various methods of compiling audit programmes. However, where a programme of work has been laid down for the audit clerks to follow, any departure therefrom should be indicated in the final notes referred to above and so be brought to the attention of the person reviewing the papers.

Extracts from minutes

The working papers usually include brief extracts from resolutions of the board of directors and of the members, affecting the accounts of the company. In general, details of discussions of the board are not recorded in the working papers.

I prefer the extracts from minutes to be filed as part of the current year's working papers, any resolutions to which reference is required from year to year also being recorded in their appropriate place in the 'permanent' file. Some accountants consider that all extracts from minutes should be placed in the 'permanent' file but in my view this results in the 'permanent' file becoming overloaded with material to which recurrent references will not be required.

List of balances in the books

In practice, where numerous adjustments to the balances in the course of the audit arise, it will be found helpful to arrange the list of balances in columnar form somewhat as follows:

Folio	Account	Original balances		Adjustments		Final balances			
						Profit and loss		Balance sheet	
		Dr. £	*Cr.* £	*Dr.* £	*Cr.* £	*Dr.* £	*Cr.* £	*Dr.* £	*Cr.* £

Each adjustment to the original balances is given a reference number, and journal entries are filed behind the list of balances describing the adjustments. The balances after adjustment are then extended to the profit and loss or balance sheet columns according to their nature.

I do not intend to imply that, where control accounts exist, detailed lists of individual balances on sales and purchase ledgers should necessarily and invariably be filed as part of the lists of balances. The purpose of preparing a list of balances is to ensure that the accounts are in accordance with the books. The balances on the control accounts, if properly supported by indiviudal balances in the ledgers, are normally sufficient for this purpose.

The balances should be referenced to the accounts to ensure that the accounts are in accordance with the books. This may be done by entering against each balance appearing in the columns headed 'Final Balances' the schedule number or other reference indicating where the balance appears in the accounts or working papers. Where the balances appear in the schedules as one of several making up an item in the accounts they may be traced through the schedules to the balance sheet or profit and loss account. Other balances will be referenced direct to the accounts, those appearing in the balance sheet

The second and concluding part of a paper delivered on September 12th, 1951, at the summer course of The Institute of Chartered Accountants, in England and Wales, held at Christ Church, Oxford. The first part of the paper, together with the appendix, appeared in our last issue.

being referenced in the appropriate column 'B/S' and those in the profit and loss account 'P. & L.' (or other suitable symbols may be used).

The items in the schedules or, in cases where they are not dealt with in schedules, the items in the profit and loss account or balance sheet will each be marked with the reference 'T/B' indicating 'Trial Balance' or will be ticked in a manner which will be identified in the working papers as indicating that the item has been checked with the trial balance.

The method of referencing described above may seem elementary but, in cases where there are numerous adjustments, its application will facilitate the process of ensuring that the appropriate entries are made in the client's books, so that the auditor may report that the accounts are in agreement with the books of the company.

Schedules supporting items in the accounts

The schedules supporting items in the accounts should be drawn up so that they clearly indicate (i) the composition of the figures in the accounts, (ii) the accounting principles used in their computation and whether these are consistent with those previously adopted, (iii) the work done by the accountant to substantiate the figures, and (iv) the extent to which the figures seem open to question, either due to errors in their computation or due to the principles employed not being acceptable to the accountant.

Generally speaking, one or more schedules are required to support each item in the balance sheet and certain items in the profit and loss account. The schedules will be arranged in the order in which the items dealt with appear in the balance sheet and profit and loss account as explained under the next heading, 'Referencing the papers'. Later I will discuss some of the factors which may have to be dealt with in schedules relating to certain items frequently appearing in the accounts of companies.

Referencing the papers

It will be found convenient to insert against the appropriate items in the draft accounts the schedule number or other reference to the working papers in which the item is dealt with. In practice various systems of referencing are employed. The simplest method, which is suitable for the smaller audits, is to arrange the main schedules (from which the figures are taken direct to the balance sheet or profit and loss account) in the order in which the items they support appear in the accounts, and then to arrange the supporting schedules directly behind the appropriate main schedules. The schedules of final notes, missing vouchers and other schedules preceding the schedules to the accounts are then added and the schedules are numbered consecutively.

A method which is suitable for larger audits is to allot a letter, or Roman numeral, to each of the main schedules; the schedules of final notes and other schedules preceding the schedules to the accounts also being given a letter or numeral. The schedules are then arranged in the same order as for the method first described, and the supporting schedules are referenced with the letter or Roman numeral of the schedule they support, followed by consecutive numbers. This enables the referencing of a section of the papers to be carried out before all the working papers are complete, so long as the main schedule and all its supporting schedules for any one item appearing on the accounts have been collected together.

Whichever method is used, in addition to referencing the accounts to the main schedules, the totals on the main schedules should be referenced to the accounts, e.g. by the symbol 'B/S' in the case of items appearing in the balance sheet or 'P. & L.' in the case of items appearing in the profit and loss account; the items included in the main schedules should also be referenced to the supporting schedules. Similarly, supporting schedules should give the reference of the main schedule to which they apply and of any other schedules which give information included in them.

There are many variations of the methods of referencing but any system which will enable the required information to be found readily will suffice.

In some cases an index is included at the front of the schedules indicating the schedule number or other reference on which the main balance sheet and profit and loss items are dealt with.

Permanent file

The 'permanent' file is designed to contain information which is likely to be required by those carrying out the audit not only in the following, but in future years. In the case of a company, a printed copy of the memorandum and articles of association together with any amendments to them will be an important item in the file; in the audit of a partnership a copy of the partnership deed, if any, will be one of the principal documents.

Information which is usually included in a permanent file comprises details or copies of agreements and contracts of a continuing nature, details of the system of internal control in operation and of officials empowered to authorize expenditure or sign cheques. Contracts of which details or copies are normally recorded in the permanent file include service agreements with senior executives, and important royalty agreements. Where a programme of audit work is laid down for the audit staff, it will usually be kept with the 'permanent' file.

Particulars of deeds and leases which constitute the company's title to its properties are often kept in the permanent file, the schedule of particulars being provided with columns or other means of recording the verification of the company's titles to the properties on the occasion of a number of audits. These particulars may be voluminous and the work of transcribing them annually on the current audit papers would be appreciable.

Resolutions of the directors or members of a company may call for reference on future occasions and, where not already incorporated in the memorandum

and articles of association, details should be kept in the permanent file. For example, methods of computing profits for the purpose of calculating commission payable to officials may be fixed by resolutions of the directors. It may be necessary to refer to the exact terms of such resolutions from year to year and these may be noted in the permanent file unless, as is often the case, it is found convenient to deal with them in the annual working papers.

Schedules to the Balance Sheet

As explained above, these schedules may advantageously be arranged in the order in which the items dealt with appear in the balance sheet. Normally a schedule for each item in the balance sheet will be found to be required, together with such supporting schedules as are necessary.

In preparing schedules supporting items in the balance sheet, care should be taken to present the information in a clear and concise manner, so that lengthy details are relegated to supporting schedules. Unnecessary details should not be recorded on the schedules. Normally the audit schedules are not intended to reproduce all the entries in the client's books in the period examined.

It may be helpful if I indicate briefly some of the considerations which arise in preparing audit schedules relating to certain items appearing in the accounts of companies.

Share capital

The schedule relating to share capital should contain particulars of the authorized and issued capital, and of any changes since the date of the last accounts. Where there is more than one class of share it is usual to record on the schedules notes of the rights of the various classes of capital in regard to dividends, winding up and votes, including votes on a poll.

The schedules should contain particulars of the work done to confirm with the share registers of the company, the amounts of capital outstanding, either at the balance sheet date or at some other convenient date, e.g. a date on which a dividend was paid during the period under review.

Where there is only a small number of shareholders it is often convenient to list the shareholdings at the balance sheet date.

It is often desirable for the schedules to contain a history of the share capital accounts showing the dates on which issues of capital were made, the prices at which the shares were issued, and indicating whether the issues were for cash or otherwise. In the latter case, brief particulars of the consideration are noted .Where shares were issued at a premium the manner in which the premium has been dealt with is indicated. This schedule may be carried forward from year to year where no changes have occurred. I consider it preferable to file it as part of the current audit schedules rather than in the permanent file.

An example of the schedules relating to share capital is shown in the appendix.

Reserves

The schedules normally show movements on all reserve accounts since the date of the last accounts, capital reserves being distinguished from revenue reserves. Reference is usually made in the schedules to any provision in the articles of association or debenture trust deeds, loan agreements, etc., dealing with the availability of capital profits, or specified reserves, for distribution by way of dividend.

It is also generally desirable for the schedules to indicate in summary form the sources from which reserves have been built up, and any application of them. In order to present the story fairly, it may be necessary to deal in chronological sequence with additions to, and applications of reserves, as this may affect the accountant's opinion of the composition of the balance of any reserve.

An example of the way in which schedules relating to reserves might be compiled is shown in the appendix.

Debentures and fixed loans

The schedules normally contain details of the balances outstanding on the accounts for debentures and fixed loans at the balance sheet date and the manner in which they have varied during the year. The following particulars regarding each of the amounts outstanding on loan or debentures are also normally desirable:

(i) Whether unsecured or secured. In the latter case, brief particulars of the security.
(ii) Rate of interest.
(iii) Terms of repayment.
(iv) Any other provisions relating to the loans which affect the accounts of the company.
(v) Particulars of work done to verify the amounts outstanding on these accounts at the close of the accounting period. Certificates from the lenders or other confirmations of the amounts outstanding are normally filed behind the schedule dealing with the liability which they confirm.

Trade and other creditors

The items which make up the amount shown in accounts under this heading are often very numerous. The extent to which it is necessary to include the details in the accountant's working papers will depend on the number of items involved, the state of the company's records, the adequacy of the system of internal check and other factors. In many cases amounts owing to trade creditors taken from the purchase ledger, unpaid invoice register or similar record account for a considerable proportion of the total. Where there is a considerable number of these balances and adequate control accounts exist, it would not normally be considered necessary to file complete lists of trade creditor balances in the working papers. Details should be given, however, of any unusual balances which are included in the total. Discretion is required in deciding the extent of the detail which should be given in the schedules. If too much detail is given the accountant's view will be

fogged by the masses of figures in the papers and the considerable effort expended on their preparation will have been wasted.

It will assist the accountant to obtain a clear view of the composition of 'Trade and other creditors' if the main schedule making up the balance sheet figure is drawn up to show separate totals for:

Trade creditors, including amounts provided for liabilites for which invoices were received too late for entry in the purchase ledger;

Other creditors;

Accruing expenses.

Comparative figures for the previous year in respect of each of these headings are usually given and reasons for variations noted, where these are material.

The schedules will also describe the work done to substantiate the amounts set up for creditors. In the case of a manufacturing company or any company dealing in merchandise, it is often important to ascertain that proper provision has been made for all liabilities in connexion with goods taken into stock. In these cases it is usual to make specific reference in the schedules to the steps taken to substantiate the figures from this standpoint.

A certificate is often obtained from a responsible official of the company to the effect that to the best of his knowledge and belief full provision has been made in the accounts for all liabilities of the company and for any losses or claims which are likely to arise in respect of pending legal actions or contingent liabilities. Certificates of this nature are normally filed as part of the audit working papers and it is often convenient to include them in the schedules immediately preceding the schedule of trade and other creditors.

The appendix contains an example of the manner in which the main balance sheet schedule relating to trade creditors and accruing expenses might be compiled.

Taxation provisions

The high rates of taxation on profits and the intricate legal provisions governing the ascertainment of the liabilities to taxation naturally make the consideration of the amounts set up for these liabilities an important part of the audit of the accounts of any commercial undertaking. In order to present the facts relating to the taxation position clearly in the working papers it is usually necessary for the schedules relating to taxation to show the following information, in addition to any other information which may be necessary in a particular case:

(*a*) The composition of the amounts provided in the balance sheet for taxation, distinguishing between income-tax, profits tax and other taxation and showing the amounts provided for each fiscal period, any payments on account of the liabilities and notes as to the extent to which the liabilities have been agreed with the Inland Revenue authorities.

(*b*) Similar details of the amounts provided at the previous balance sheet date and of the movements which have taken place during the period.

(*c*) Notes of any major items in dispute with the Inland Revenue authorities and the basis on which these have been dealt with in computing the provisions in the accounts.

(*d*) Details of the composition of the amounts charged or credited in the revenue account for the period in respect of taxation, distinguishing between income-tax, profits tax and foreign taxation and showing the extent to which these amounts include adjustments relating to previous years.

(*e*) Particulars of the adjustments to the profits for the purpose of computing the estimated amounts required for income-tax, Schedule D, and profits tax on the results for the period. For the purpose of comparison it is helpful to include in the schedules the computations based on the previous accounting period.

The example in the appendix shows the manner in which schedules relating to taxation might be compiled to show this information in a concise form.

The effect of initial allowances on capital expenditure is to grant relief from taxation on the profits for the year in which the expenditure is incurred and to restrict the wear and tear and other capital allowances which otherwise would have been obtained over the remainder of the life of the assets concerned. Some companies place to a taxation equalization reserve the net benefit which has accrued to them to date by reason of relief from taxation arising from initial allowances. The object of creating such reserves is to enable the company to draw on them to relieve taxation charges against profits in subsequent years, when the effect of the relief now obtained is to reduce allowances for wear and tear. Where these reserves are not maintained and material amounts are involved, it will be helpful for the working papers to include calculations (estimated if necessary) of (i) the net benefit received by the company by way of relief from taxation arising from initial allowances to the end of the previous accounting year, (ii) the benefit obtained or estimated to be obtainable on capital expenditure for the year, and (iii) the estimated additional liability for taxation on the profits of the year which arises because of the initial allowances granted previously. This information will enable the accountant to decide whether, in his opinion, reference should be made in the accounts to the effect of initial allowances on the taxation charge for the year.

Another factor to which reference may be required in the working papers is the aggregate amount by which the liabilities of the company to profits tax have been reduced by the granting of non-distribution relief. This relief operates to reduce the liabilities to profits tax in periods when profits are retained. In effect the relief is subject to withdrawal to the extent that, in future periods, distributions are made in excess of the profits for those periods. For the purpose

of profits tax, in certain circumstances, distributions to shareholders on the liquidation of the company and other returns of capital, may be regarded as distributions of profits. Non-distribution relief may, therefore, be considered to have been granted conditionally on the permanent retention in the business of profits undistributed at the date of the balance sheet. The reserves shown in the company's balance sheet may not, therefore, be available intact for distribution to the shareholders.

There is a body of opinion which holds the view that, where material amounts are involved, the balance sheet may be misleading if attention is not drawn to this factor. One solution put forward is that there should be set aside from the undistributed profits amounts equivalent to the additional profits tax liabilities which would arise in the event of the distribution of profits at present carried forward.

Against this, it is contended that the profits may never be distributed and that the contingency is better dealt with, if at all, in a note on the accounts.

Whichever view is held it seems desirable for the working papers to include details of the non-distribution relief obtained by the company in the computation of its liabilities to profits tax so that the accountant may decide on his course of action in the light of the facts of the case.

Contingent liabilities and other commitments

Where there are commitments for which the company is contingently liable it is desirable for a summary of these to be given in the working papers, including where practicable the amounts of the liabilities.

The schedules should also indicate which of these liabilities, if any, are likely to materialize in the opinion of the company's officials and the extent of the provision made therefore in the accounts.

With this information before him the auditor will be in a position to determine whether in his opinion the amounts of the contingent liabilities are sufficiently material to call for reference in the accounts and whether adequate provision has been made therefor.

Reference is not normally made in the accounts of companies to commitments of normal amount relating to their ordinary trading operations; this is on the basis that the commitments are not expected to result in any loss to the company concerned. It is usually necessary, however, for the auditor to consider whether the commitments are normal and whether they are likely to result in a loss to the company. In these cases the working papers normally contain particulars of the inquiries made on the subject and, where practicable, particulars of the aggregate amounts of the company's commitments in this respect. These matters are often of considerable importance in relation to companies dealing in produce, where the financial position may be largely dependent on the outcome of forward contracts for purchases and sales.

The Companies Act, 1948, requires that accounts of companies shall contain particulars of the amount of commitments for capital expenditure, where material amounts are involved. These commitments may have a bearing on the financial position of the company, as the expenditure involved is not normally recouped from the revenues of the company within a comparatively short period as in the case of commitments for purchases of consumable goods. The authorization by the board of directors of a project for expansion of the company's activities involving capital expenditure is not, however, necessarily a commitment by the company to incur such expenditure. So far as the outside world is concerned, the company is normally committed only when orders and contracts are placed for the implementation of the project authorized by the directors. The schedules relating to capital commitments should therefore distinguish between expenditure authorized by the board of directors and amounts for which the company is committed.

Fixed assets

Under the provisions of the Companies Act, 1948, it is, generally speaking, necessary to show in the balance sheet the cost (or valuation adopted for the accounts) of the fixed assets in existence at the date of the balance sheet and, where appropriate, the accumulated provisions for depreciation. The schedules relating to fixed assets normally show the movements which have taken place during the year under both these headings. In order to enable the principal to follow easily what has happened to the fixed asset accounts during the accounting period, the schedules should be drawn up in such a manner that they provide an easy link between the comparative figures for the previous year and the figures at the balance sheet date. In many cases, companies have voluminous records relating to fixed assets, but in their annual accounts present this information in a summarized form under relatively few headings. The schedules relating to fixed assets should be compiled so that the figures appearing in the balance sheet are readily seen from the main schedule, details of the expenditure capitalized during the period and, where numerous items are involved, summaries of the various fixed asset accounts being dealt with in the supporting schedules. An example is given in the appendix of the manner in which the main schedule of fixed assets might be prepared in a hypothetical case.

As suggested above, details of the expenditure capitalized during the year will frequently be recorded on subsidiary schedules to the main balance sheet schedules relating to fixed assets. Details of assets sold, scrapped or dismantled are also often recorded similarly. The schedules relating to these movements on the fixed asset accounts will include details of the work done by the auditor to substantiate the expenditure capitalized and the amounts written out of the asset accounts in respect of displacements. The schedules relating to assets displaced will normally

include details of the cost of these assets, the accumulated provisions for depreciation thereon, the amounts if any realized on sale and the resulting profit or loss; the aggregate profit or loss on the sale of these fixed assets being referenced to the profit and loss account or other account to which it is carried in the books of the company.

Where the fixed assets include land and buildings, the working papers normally include a list of the deeds or leases which constitute the company's title to its properties and the manner in which these have been verified. It is sometimes convenient to include these in the permanent file but a reference to this file is then made in the current audit papers.

Details of the rates used for depreciating the fixed assets are also usually given in the schedules, with an indication of whether the basis used is substantially the same as that adopted in the previous year. Where there has been a change in the basis of providing depreciation, the schedules will indicate, if necessary approximately, the effect of this change on the amount provided against the results of the period for depreciation.

Where depreciation is not provided, the manner in which renewals of assets are dealt with will be noted; and where provisions are set aside for renewals, it will be helpful to provide a reference to the number of the schedule on which the provisions for renewals can be found.

The above remarks apply, generally speaking, to fixed assets of a tangible character such as buildings, plant and equipment. There may, however, be cases where investments and advances are fixed assets and, whilst it is desirable for the schedules to deal with the movements which have taken place in these assets since the previous accounting period, the remarks made above with regard to the basis of provisions for depreciation and renewal may not apply.

Trade investments

Where there are trade investments of a significant amount it is normally desirable to include in the working papers a schedule showing the composition of the amount in the balance sheet, particulars of the investments held, the issued share capitals of the companies in which they are held, and details of the changes during the year in the investments and in the amounts carried in the books in respect thereof. The schedule will also show the income receivable on the investments and the income-tax suffered thereon, the latter being referenced to the taxation schedules.

Where material amounts are involved, it may be necessary to give details of the earnings and financial position of a company in which an investment is held so that consideration may be given to the amounts at which the investments are carried in the books in relation to their probable value.

The schedule will also indicate the steps taken to verify the investments held at the balance sheet date.

The appendix contains an example of the manner in which a schedule relating to trade investments might be compiled.

Stock-in-trade and work in progress

It is not the purpose of this paper to discuss the duty of the auditor in relation to stock-in-trade and work in progress. That has already been done by Mr Goult on a previous occasion[1]. My endeavour is to discuss here the working papers which it is desirable for the auditor and his staff to keep.

The methods used for the valuation of stock-in-trade and work in progress vary so much as to make it important to ascertain precisely the basis adopted. Only when the auditor has done this can he determine whether the basis is one which he can approve, and whether it is consistent with that adopted in the previous year. Where there is a change in the basis adopted, it is often difficult to form an opinion as to the effect it has had on the result of the company's operations shown for the accounting period.

The working papers relating to stock-in-trade and work in progress should therefore disclose:

(*a*) the methods adopted by the company for arriving at the values attributed to this asset;
(*b*) the work done by the accountant to substantiate the existence and ownership of the asset;
(*c*) the values attributed to the asset and the work done by the accountant to substantiate these values;
(*d*) the extent, if any, to which the basis of valuation differs from the previous year and the effect this has had on the results disclosed by the profit and loss account and on the amount carried in the balance sheet.

The working papers normally include a summary of the amounts carried in the balance sheet for stock-in-trade and work in progress, classified under headings appropriate to the business, and a comparison of the amounts which appeared in the balance sheet for the previous year under each heading. This summary is usually followed by notes outlining the system used for listing the stock and work in progress on hand at the date of the balance sheet. Where continuous inventory records are maintained, details are normally given of the steps taken by the company to prove these records with the actual quantities on hand from time to time. The notes usually describe the steps taken to test the stock sheets with the original stock-taking records.

The notes also normally describe the basis of valuation of stock and work in progress and the work done to test the values adopted with invoices and costing records. This section of the notes is usually supported by lists of selected items appearing in the stock records and details of the results of testing these with invoices and costing records.

It is often necessary in the case of a manufacturing company to give particular attention to the treatment of overhead expenditure in relation to the valuation of stocks of finished products and work in progress. The notes relating to the basis of valuation will usually describe the method adopted for dealing with

[1] 'Stock-in-trade and the auditor', reproduced in *The Accountant* of August 13th and 20th, 1949.

overhead expenditure and, where arbitrary bases are used, will, so far as practicable, compare the amounts included for overheads computed on these bases with the actual overhead expenditure incurred.

In examining the valuation of stock-in-trade and work in progress attention may have to be given to the question of obsolete or slow-moving items, and the notes will describe the results of inquiries made into the question whether proper allowance has been made for this factor in valuing the asset.

In recent years, owing to the rising trend of prices of raw materials, industry, generally speaking, has not been faced with the necessity for reducing selling prices to take account of falls in the replacement cost of materials. There have been cases, however, where reductions in the rate of purchase tax have affected adversely the value of stocks held by retailers. There have also been cases where costs have been incurred in producing articles which, due to changes in demand or for other reasons, were not saleable at prices sufficient to cover the costs of production. It may be important, therefore, to give consideration to the question whether the inventories are likely to realize at least their balance sheet value, after taking into account any expenditure necessary to fabricate them or otherwise render them saleable as a finished product. The notes relating to stock-in-trade and work in progress will normally indicate the nature of the inquiries made on this point and the steps taken by the auditor to confirm the information given to him.

Where the accounts include amounts in respect of work in progress on uncompleted contracts, it is usually necessary for the schedules to include particulars of the amounts carried forward and of the basis on which they are computed. The treatment in the accounts of profits or losses on uncompleted contracts usually calls for scrutiny and the papers will normally record particulars of any such profits or losses taken up in the accounts. It will be necessary to examine the basis on which such profits or losses are included in the accounts and to compare it with the basis used at the close of the preceding accounting period. If there is any significant variation in the method used the approximate effect of the change in basis will usually be noted in the papers.

Another factor relating to work in progress on uncompleted contracts to which attention may have to be given is the assessment of the probable outcome of each contract after taking into account expenditure necessary to complete the contract. These assessments normally involve obtaining an estimate from responsible officials of the expenditure to be incurred and of future receipts under the contract. The working papers will normally record particulars of the estimates produced and of any work done by the auditor to test their validity.

The appendix includes an example of a main schedule supporting the balance sheet figure for stock-in-trade and work in progress.

Trade and other debtors

As in the case of the schedule of trade creditors, the main schedule supporting the amount in the balance sheet for trade and other debtors should be drawn up so that the general nature of the items making up the balance sheet figure is concisely shown. Where sales ledger balances are numerous it will not normally be necessary to include in the audit papers complete lists of them. It will usually suffice if, where practicable, details are given of the length of time the balances have been outstanding and the amount thereof received since the balance sheet date. The schedules will also contain lists of balances queried with the officials of the company, notes of the replies given and the conclusion reached by the auditor as to the extent to which the debts are doubtful of recovery.

The movements on any provision for bad and doubtful debts are usually given in the schedules and the basis on which the provision is made indicated. The schedules normally also contain the auditor's assessment of the adequacy of the provision made.

In view of the requirements of Section 197 of the Companies Act, 1948, full details are normally inserted of accounts owing by directors or officers of the company.

The schedules will describe the work done by the auditor in relation to the debtor balances. In this connexion the work done to ascertain that goods invoiced have not been included in stock may be of considerable importance.

An example of a schedule relating to trade and other debtors is given in the appendix.

Balances at bankers and cash in hand

The schedules relating to this item will normally include particulars of the bank balances and cash balances held by the company at the date of the balance sheet. In the case of bank balances, particulars are required of the reconciliation between the balances shown by the bank's records and those shown by the company. Where numerous items are concerned it is better to include the reconciliations in supporting schedules. The reconciliation statements are normally drawn in a form which commences with the balance shown by the bank's records as certified by the bank direct to the auditor and ends with the balance according to the company's books. The closing figure is thus readily traced to the balance sheet or schedule summarizing the company's bank balances. The reconciliation statements will also normally show the dates on which the outstanding items were entered in the company's books, and the dates, generally subsequent to the date of the balance sheet, on which they appeared in the bank pass-book.

Notes are particularly required of the dates appearing on the counterfoil paying-in slips for lodgments not credited by the bank until after the date of the balance sheet. Apparent delay in the lodgment of funds in the bank may be an indication that the funds were not actually on hand at the date of the balance

sheet, and may be a method by which it is sought to cover up a defalcation.

Certificates from the company's bankers confirming the balances on the company's accounts will be filed with the schedules relating to these balances and the amounts shown referenced to the appropriate schedules.

The schedules relating to the cash balances of the company normally indicate the name of the official under whose control each cash balance is maintained. Particulars of the steps taken to verify the cash balances, including particulars of any counts made, are usually filed as supporting schedules. The particulars given relating to the cash counted usually include details of the cash articles produced, and details of any cheques cashed or IOUs held as part of the cash balances. The auditor may then refer the latter to an appropriate official to ensure that such advances are authorized. The schedules relating to the cash counts will normally contain notes of the precautions taken by the auditor to ensure that all funds in the hands of the officials are counted, that insurance stamp funds have been correctly accounted for, and that receipts by the cashier which have not been banked at the time of the count are brought within the scope of his examination.

Schedules to the Profit and Loss Account

Where the profit and loss account submitted to the shareholders is in a form which gives only the minimum information required by the Companies Act, and does not give full details of the trading of the company, a detailed profit and loss account should be filed with the working papers so as to give a comparison with that of the previous year.

The comparison of the figures in the profit and loss account with those of the previous year and the explanation of the variations disclosed can be valuable parts of the audit of a company's accounts. It is good practice, therefore, for the schedules supporting the profit and loss account to give a comparison, summarized if necessary, of the results disclosed for the period and for the previous period under headings appropriate to the business, with notes of the reasons for the variations. The extent to which this comparison can be carried and explanations obtained for the variations disclosed, depend on the type of business covered by the accounts and the accounting records available. Even where the accounting records meet only the minimum requirements and, perhaps, particularly in such a case, it may be desirable for variations in trading results to be gone into with some care and for the explanations to be recorded in the working papers.

The extent to which it will be necessary to have schedules for the items in the profit and loss account will depend on the nature of the business, the extent of the information which the client expects to receive from the accountant as a result of his examination, and the requirements of the auditor if he is responsible for the settlement of the taxation liabilities.

The objects in preparing schedules to items in the profit and loss account, apart from special requirements of the client or for taxation purposes, are normally to provide information which is essential to an understanding of the accounts, to ensure that expenditure charged therein is properly authorized and accounted for, and that amounts credited as revenue are properly accounted for.

Some of the items which, in the case of a trading company, normally call for the preparation of a schedule, or for their reference to a schedule supporting the balance sheet are given below:

Turnover and gross profit
It is often helpful, in explaining variations in the trading results for the period as compared with previous periods, to analyse the figures of turnover according to products or other classifications appropriate to the business, with a similar analysis of the cost of sales and to prepare comparisons of gross profit ratios.

Depreciation
Amounts appearing in the profit and loss account for depreciation should be referenced to or reconciled with the amounts written off the fixed assets and shown in the schedules relating thereto.

Repairs and renewals
Some analysis of this account is usually required in order to ascertain that no major capital expenditure has been written off against revenue.

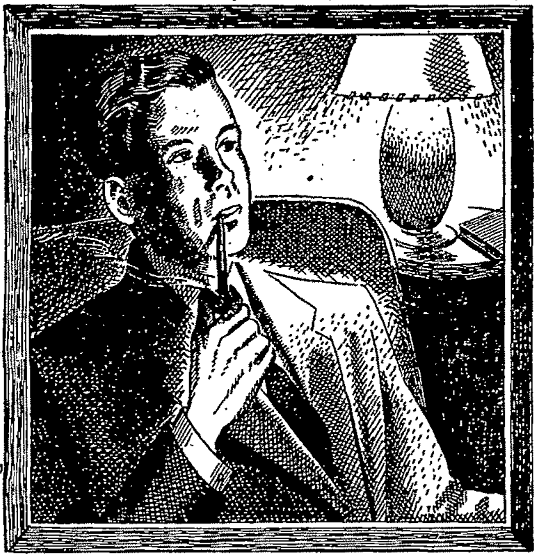
Directors' emoluments
A schedule of emoluments received by directors is normally required showing the amounts receivable by the directors, distinguishing between fees and other emoluments. The schedule should contain references to the articles of association, service agreements or other authorities for the emoluments to which the directors are entitled. The question of qualification shares should also be dealt with. A specimen schedule showing how this information might be set out is given in the appendix.

Taxation
The amount charged in the accounts for taxation should be referenced to the taxation schedule previously mentioned.

Dividends
Amounts provided in the accounts for dividends on the share capital are normally supported by details showing the authority for the dividend, the gross amount thereof, tax deductible and the net amount. Details of the work done to test the dividend sheets with paid warrants and with entries in the share registers may be noted conveniently at the foot of the schedule.

Conclusion

It is not possible in a paper of this length to deal with all questions which arise in connexion with an accountant's working papers. In the course of the discussion I shall be happy to deal to the best of my



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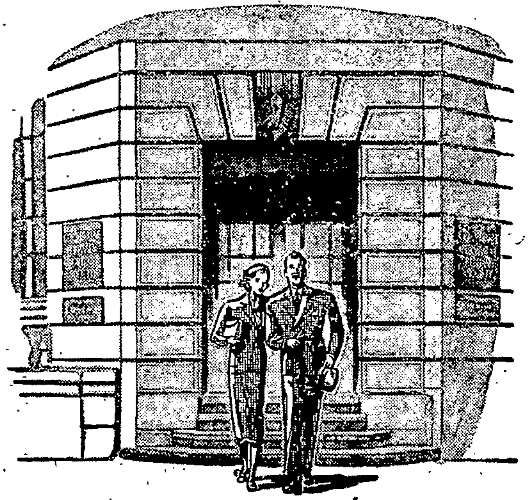

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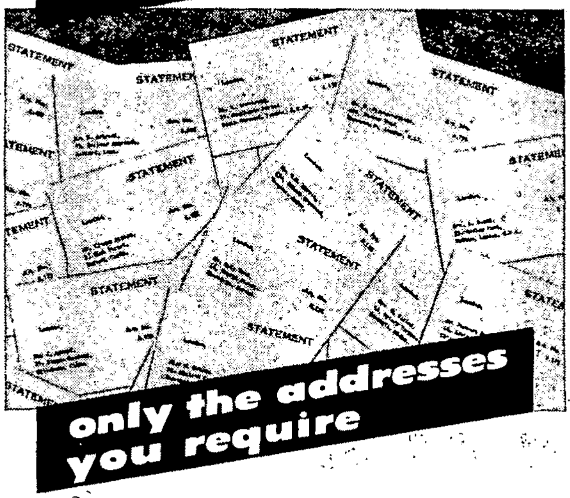

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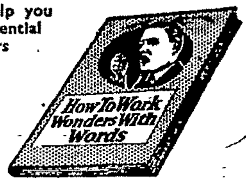

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ability with any questions you may have to raise relating to the subject of my address.

In conclusion I should like to stress that it is necessary to exercise a considerable degree of judgment in compiling an accountant's working papers. The extent to which they should record the details in the records to which they relate is a matter to be decided on the facts of each case. Properly prepared, the papers can be of great assistance and amply repay the time spent in preparing and arranging them. On the other hand, if burdened with unnecessary detail, they are wasteful of time and energy and fail to fulfil the primary requirement of presenting facts in a clear and concise manner. *(Concluded.)*

WEEKLY NOTES

University Training for Industry

The report of the third of the four specialist teams sent by the Anglo-American Council on Productivity to the United States to study the problems of training for industry was published yesterday.[1] The assignment of this team was to ascertain what lessons, if any, were to be learned from the distinctive relationship between universities and industry which exists in that country and the extent to which, if the same principles were applied in Great Britain, our National prosperity might be enhanced. After surveying this section of the American education field and noting the widespread enthusiasm for college training, the team strongly recommends that, if adequate provision is to be made here for the supply of trained men for industrial employment on the scale now current in the United States, extended facilities should urgently be provided. The required form of preparation would be a broad general education on a full-time basis with a technical standard equivalent to the Higher National Certificate courses. The problem of how and where this education should be received would have to be tackled immediately. The team also considers that if fundamental research is to maintain its present position in this country, a considerable accretion of funds to support pure and applied scientific research in universities is essential. Finally, it recommends that industry should (*a*) recruit a larger proportion of persons educated in full-time courses, either at the universities or technical colleges; (*b*) afford these persons ample scope and encouragement so that full benefit may be had from their training; (*c*) encourage specialist members of staff to place their knowledge at the disposal of the universities and technical colleges for instructional purposes; (*d*) provide facilities for the initiation and training of recruits from universities and technical colleges in specific fields in cases where such provision is not now made; and (*e*) extend facilities for releasing members of staff for higher education.

The Conservation of Materials

In June of this year, the Anglo-American Council on Productivity sent a team of experts on an urgent mission to the United States to study what measures were being taken in that country to economize in the use of scarce materials. The team's report on its visit, published on Monday, is concerned almost wholly with metals.[2] It recommends that existing steel conservation committees in Great Britain should give renewed attention to the properties of lower alloy-content steels and to the special techniques for hardening and heat treatment as used on a substantial and increasing scale in America. Methods employed in the United States for economizing in the use of other metals such as copper, nickel, lead and tin should also be studied by our manufacturers. In exchange, British techniques in electro-deposition of combinations of tin-zinc and tin-nickel and the use of ceramic-tipped cutting tools and precision-cast milling cutters should be more widely known in the United States. Finally, the team suggests that the redesign of manufactured products with a view to saving scarce materials should be a continuous activity.

The Importance of Pension Funds

In his address to the annual conference of the Association of Superannuation and Pension Funds on Tuesday, Sir Henry Clay said that two characteristics of pension funds of special interest to those interested in current economic developments were their recent growth and present size. He attributed their growth to two factors – the increase in the number of persons surviving after normal retiring age and the difficulties of individual saving owing to heavy taxation and the fall in the purchasing power of money in the last twenty years. The present size of the funds, he said, was noteworthy because it provided a substantial source for capital supplies at a time when savings have acquired a critical importance. These steadily accumulating funds contribute to the flow of money to the capital market without which our financial structure would become ossified.

Sir Henry further emphasized the significance of pension funds in our national economy by saying that, with taxation at its present level, savings was the best means available to curtail consumption and release the necessary resources for rearmament. The only alternatives were the reimposition of a complete system of wartime controls or inflation. The latter is particularly inimical to pension funds because it impairs the worth of future pensions considered adequate by present price levels and because there

[1] 'Universities and Industry.' (The Anglo-American Council on Productivity, 21 Tothill Street, London, SW1, price 2*s* 6*d*, post free.)

[2] 'Saving Scarce Materials.' (The Anglo-American Council on Productivity, 21 Tothill Street, London, SW1, price 2*s*, post free.)

is no possible actuarial basis for calculating a constantly adequate scale of pensions under such uncertain conditions.

First Reactions

When the change in bank rate was first announced it seemed that the markets had expected something rather more penal than was forthcoming. For the first day, gilt-edged stocks for instance showed a tendency to improve which once upon a time would have been taken as a clear indication that the move had not come off, and that long-term rates were not going to move in sympathy with the short ones.

Towards the end of the week, however, there were increasing signs that second thoughts were rather more on the lines that the authorities would have wished. The feeling gathered adherents that a well-balanced series of comparatively small adjustments of interest rates in the money market, taken further at a later date if need be, but meanwhile giving all concerned a chance to see how monetary techniques worked out after being in cold storage for so long, might be the right way to bring the monetary factors into play to best advantage.

That the Government will take further steps along the lines indicated by their actions in the market last week seems hardly in doubt. In the meantime it will be a while before, either the direct consequences in the market of these new moves work themselves out, or before higher rates can affect the inflationary situation through a higher price for bank accommodation to industry or through the amount of the reduction of public spending. But these moves will be slow in their effect only to a relative degree. They should work quicker than could any other influences and they are flexible. The wind can be tempered to the shorn lamb – but the authorities will want to see a certain amount of shearing first.

Conference on Productivity

A first international conference of manufacturers to be attended by over 200 leading industrialists from Europe is to be held in New York at the beginning of next month. The conference is being sponsored by the National Association of Manufacturers. Before the conference meets there will be a tour of United States factories under the auspices of E.C.A. and the National Management Council. These two bodies are joining the N.A.M. in sponsoring the entire conference.

It has already been said in general terms that the object of the conference is to study the significance and the broad techniques of higher productivity. The unique feature of this conference is that those invited from this side of the Atlantic are top executives. The conference thus conforms to a pattern set out in part, in the activities of the Anglo-American Council of Productivity which has sponsored the interchange of specialized teams. Those teams which went to the United States have come back to do a tour of education and instruction among their fellow technicians, managers and trade unionists.

The December conference is in a way an answer to the question; who is to tell the boss? It will try to get the idea of higher productivity across to the men who make the key decisions, and who are not by reason of their position in industry either accessible or very amenable to instruction from their subordinates. Such, anyway, is one of the main ideas behind the conference. The idea is certainly a laudable one and shows that the organization behind the spreading of the gospel of higher productivity has a thoroughness which merits success.

Autumnal Retail Trade

The bout of consumer resistance which was widely publicized in the autumn is now coming out in official statistics. The Board of Trade's retail price figures are now available for September and they show a heavy slump in clothing sales compared with the same month a year ago. Thanks to the rising price of food, the total value of retail turnover was not much changed compared with September 1950, but this fact will be of little consolation to the majority of retail houses.

So sluggish was trade in September that it almost failed to recover from the traditionally quiet month of August. The brunt of the fall was taken by clothing and household goods. If allowance is made for the fact there was a rise of something like 19 per cent in the price of such goods over the year, the decline in these sections compared with a year ago was as much as 25 per cent. From reports already received it seems likely that the bad results for September will not have been much improved upon for October.

As might be expected when consumer resistance lowers turnover, stocks were high. Compared with a year ago stocks of household goods were as much as 40 per cent up.

Fuel Economy

Over the years the Federation of British Industries has advised its members on fuel efficiency problems. The current need to conserve fuel and the existence of this accumulation of experience within the Federation has prompted the issue of a small booklet on fuel efficiency.[1]

This guide to the saving of industrial fuels is commendably brief (it should be, since it is addressed to the board-room rather than to the fuel expert), and is attractively designed. Its contents are set out in three sections. The first deals with common faults in boiler operation and their remedies. The second is concerned with the use of instruments for measurement and control which in the opinion of the authors of the brochure is a much neglected field for improvement.

The third section deals with the efficient use of heat. In order to underline how needlessly high pressures in process work cause waste, an explanation of the properties of saturated steam is given. Thermal insulation of buildings is discussed and a concluding section covers the conservation of heat.

[1] 'Full Economy Pays.' (Federation of British Industries, 2s.)

FINANCE AND COMMERCE

Realization that the economic and monetary measures taken by the new Government are the prelude to more rigorous action has caused all-round reaction in stock markets. Gilt-edged stocks have been particularly weak on dearer money prospects.

Point on Proxies

A question regarding the validity of proxies raised an interesting point at the recent requisitioned extraordinary general meeting of the Western Manufacturing Estate Ltd. The proxy forms for the meeting were in the convenient postcard form, addressed to the company on one side and with the form on the other. At the foot of the form was the customary statement that execution of the proxy by a corporation must be under the common seal of the corporation, or under the hand of some officer of the corporation duly authorized in writing in that behalf.

The state of the proxy vote before the meeting was 1,541,398 votes in favour and 1,790,110 against, but Mr S. R. Hogg, F.C.A., the chairman, informed shareholders that a question had been raised which might affect the validity of certain proxies on both sides. The point was whether a proxy executed by an official of a corporation should be accompanied by evidence of authority to sign.

Unfortunately, although the matter was raised in public meeting, the point would appear to have been decided in private. On the day after the meeting, Mr Hogg announced that Messrs Peat, Marwick, Mitchell & Co, chartered accountants, the company's auditors, who were appointed scrutineers, had certified that 1,408,291 votes had been cast for and 1,774,543 against the resolution and nothing further was said on the point in question.

'Most Impractical'

The meeting was requisitioned to achieve an unusual object in an extraordinary manner. One of the directors maintained that in the company's particular circumstances, the directors should consult shareholders before entering into any commitments for the acquisition of other businesses. Being in a minority of one on the board, but representing a substantial voting power, he decided that the simplest thing, if shareholders generally agreed, would be to requisition a meeting and cancel, by ordinary resolution, the company's authorized but unissued capital. As stated, the move failed.

Mr Hogg, an experienced company chairman as well as an accountant, declared the idea of prior consultation with members to be most impractical. No one, he said, would enter into discussions for the acquisition or amalgamation of businesses if the whole thing had to be noised abroad by disclosure to shareholders while the talks were on. Directors, he maintained, must have a free hand to do what they considered best. He was not prepared, he bluntly declared, to be a director of a company under such conditions and was prepared to resign if the meeting went against him.

Great Universal

The Great Universal Stores Ltd, whose consolidated balance sheet we reprint this week, has been largely built up by the acquisition of other businesses. It is an outstanding case of directors having a free hand to do what they consider best for the company and its shareholders. The latter have often suggested to the board that their policy should now be to concentrate on their present empire rather than further expansion, but the process continues.

In the year under review, says the chairman, we have bought new subsidiaries and shares held by outsiders in existing subsidiaries. Net assets attributable to such shares have largely exceeded the price paid, which has resulted in a surplus brought into account on the consolidation.

The surplus has been used to reduce goodwill by approximately £1 million. The goodwill item itself is shown as a deduction from the surplus on revaluation of properties, shown under capital reserves.

The actual balance sheet refers the reader at 'Capital Reserves' to pages 12 and 13 of the accounts which are accompanied by a lengthy series of notes. We have to face the fact, however, that space does not permit the reproduction of the annual publication in its entirety.

Increasing the Burden

The report of the directors of The Yorkshire Brick Co Ltd (chairman, Mr A. Lester Boddington) draws attention to 'the penal effects of the profits tax legislation on arrears of preference dividends accumulated during the war through no fault of our own'. They feel that 'despite the heavy tax burden imposed, such arrears must be paid at the earliest possible moment', but in carrying out this policy 'it has been impossible to strengthen reserves and consolidate the position of the company'. By the charge of three years' dividend in the accounts, however, there remains at the date of closure only one year's payment outstanding.

This situation, presumably, is the aftermath of war, which brought the concentration of the brick industry and the closing down of brickworks. It seems an added misfortune that tax on distributed profits should increase the weight of the burden imposed by the consequent accumulation of arrears of dividend on the preference capital.

Money Market

The Treasury bill result on November 9th was not a complete test of the new conditions. Applications for £260 million of bills totalled £330,405,000, and tenders at £99 15*s* 8*d* received 70 per cent of requirements. The average rate was 17*s* 2·96*d* per cent but is expected to be near 1 per cent this week when the offer is £230 million.

THE GREAT UNIVERSAL
Consolidated Balance

1950 £			£	£
£4,250,000	**Authorized Capital of The Great Universal Stores Ltd** (see page 8)		4,250,000	
3,569,979	**Issued Capital of The Great Universal Stores Ltd** (see page 8)			3,585,513
	Capital Reserves (see statement, pages 12–13)			
2,855,359	Surplus on revaluations of properties	2,748,543		
2,855,359	*Less* Goodwill and net excess of cost of shares in subsidiaries over the appropriate proportion of book values of net assets at dates of acquisition, less amounts written off	1,832,038		
—			916,505	
2,469,074	Surplus on sales of properties and businesses and excess of War Damage compensation over book value of relative assets		2,705,420	
1,323,186	Share Premium Accounts		1,403,096	
267,663	Excess Profits Tax Post-war refunds		295,567	
197,543	Debenture and other Capital Redemption Reserves		252,996	
173,038	Exchange Reserve (including £40,352 profit on exchange arising during year)		213,390	
4,430,504				5,786,974
	Revenue Reserves			
1,968,885	General Reserves		2,602,419	
105,000	Staff Benevolent and Sickness Funds		143,000	
49,398	Preference Dividend Reserve		49,398	
11,129	Plant Replacement Reserves		17,965	
1,216,067	Profit and Loss Account balances (see note 8)		2,380,602	
3,350,479				5,193,384
11,350,962				14,565,871
2,352,349	**Amount set aside for Future Income Tax**			3,459,610
	Interest of Outside Shareholders of Subsidiaries			
6,420,022	Preference Shares (see note 7)		6,652,628	
761,938	Ordinary Shares		471,317	
2,554,847	Proportion of Profits and Reserves		1,194,180	
9,736,807				8,328,125
	Debentures, Mortgages, etc., of Subsidiaries			
1,500,000	5½ per cent Debenture Stock (secured) repayable on January 1st, 1970	£1,500,000		
500,000	*Less* Issued as security for bank loans	500,000		
1,000,000		1,000,000		
255,929	*Less* Redeemed and cancelled or purchased for redemption	266,029		
744,071			733,971	
391,480	4½ per cent First Mortgage Debenture Stock (secured)		370,740	
170,326	4 per cent Mortgage Debentures (secured) (aggregate authorized amount £208,500)		187,756	
2,572,413	Mortgages, Mortgage Bonds and Loans (secured)		2,786,787	
62,578	5 per cent Income Bonds (unsecured) repayable March 31st, 1953		62,578	
3,940,868				4,141,832
	Provisions			
177,813	Deferred Repairs		134,229	
21,460	Estimated liability under Maintenance Contracts		59,729	
199,273				193,958
	Current Liabilities			
	Bank loans and overdrafts – secured:			
1,427,342	Home	£1,164,019		
1,400,692	Overseas	1,652,427		
			2,816,446	
	Bank loans and overdrafts – unsecured:			
3,997,065	Home	5,611,788		
405,877	Overseas	259,169		
			5,870,957	
851,752	Other loans (unsecured)		352,112	
30,135	Balance of purchase price of shares in subsidiaries and of a business acquired by a subsidiary		782,523	
11,241,105	Creditors, bills payable and accrued charges		13,730,894	
3,850,932	Balance of income-tax to 1950–51, excess profits tax, and profits tax		4,743,435	
60,032	Dividends payable to outside shareholders of subsidiaries (less income-tax)		83,431	
15,434	Accrued preference dividends of The Great Universal Stores Ltd (less income-tax)		14,733	
201,996	Proposed ordinary dividend of The Great Universal Stores Ltd (less income-tax)		192,815	
23,482,362				29,087,346
£51,062,621				£59,776,742

TORES LIMITED
heet at March 31st, 1951

1950 £			£	£
	Fixed Assets			
11,813,686	Freehold and Leasehold Properties, Plant, Machinery, Fixtures, Fittings, Equipment, Vehicles, etc. (see statement, pages 12–13)			11,946,135
	Trade Investments at cost:			
373,149 (M.V.£289,693)	Quoted (Market value £350,587)		372,491	
321,990	Unquoted		265,845	638,336
12,508,825				12,584,471
	Current Assets			
13,029,821	Stocks at or under cost as valued by the management		15,971,735	
21,621,165	Hire purchase debtors, after providing for bad and doubtful debts	£28,386,636		
5,706,176	*Less* Provisions for unearned interest, collection charges, etc.	7,735,066		
15,914,989			20,651,570	
4,397,416	Debts in respect of credit sales, payable by instalments, after providing for bad and doubtful debts	4,910,323		
737,602	*Less* Provisions for collection charges	753,770		
3,659,814			4,156,553	
2,658,805	Trade and other debts and pre-payments		3,036,243	
62,966 (M.V.£63,227)	Investments (Market value £63,511)		62,916	
1,575	Tax Reserve Certificates		15,800	
2,901,763	Balances at bankers and cash in hand		3,168,707	
38,229,733				47,063,524
	Funds Deposited with Trustees for Debenture Stockholders			
13,756 (M.V.£12,801)	British Government Securities (Market value £7,727)		7,835	
248,300 (M.V.£248,052)	Canadian Government Securities		—	
62,007	Cash		120,912	
324,063				128,747
£51,062,621				£59,776,742

The notes by directors (page 11) and the statements (pages 12–13) form part of the company's accounts.

(The notes are not reproduced. – Editor.)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Costing for Inflation

SIR, – Mr H. C. H. Graves' letter under the above heading in your issue of November 10th indicates, to a degree I had not perhaps, fully appreciated, the awareness of industrial management of the fact that the minimum return payable (or earned) on invested capital is as much a constituent of the cost of providing goods and services as the labour and material charges concerned.

Mr Graves' pertinent extension of the thoughts expressed in my article underlines the failure of orthodox accountancy to provide management with a complete picture of the costs involved in carrying on business. I feel obliged to point out, however, that I was attempting in my article to distinguish 'profit' accruing to the proprietors, from 'interest on capital' representing an unavoidable cost of industry. Whilst my sights appeared to be set too low to Mr Graves, he seemed to me to be overshooting the target. In any event I hasten to agree that the element which should be included in costs, whatever title it is given, would for many concerns be considerably larger than an amount calculated by means of the percentage receivable from trustee securities.

Meanwhile the business world can scarcely expect the true cost of enterprise to be recognized by the general public, industrial workers or government departments, if a large part of this cost is not recognized as such in the accounting systems used by business.

Yours faithfully,

London, N12. A. H. TAYLOR.

Taxing of Professional Accountants' Charges

SIR, – In connexion with the points raised in the issue of November 3rd by your correspondent 'E', I think the taxing master has the right to go fully into an accountant's charges and that the account should be set out with the usual detail, which would assume that the rate charged per hour would not be shown.

I consider it is quite proper to make a charge for the responsibility and inconvenience of giving evidence in Court. The standards on which the taxing master would base his findings are mentioned in R. Sproull's standard work entitled *Accountants' Fees and Profits*, on page 180:

> 'The time which the taxing master takes into account is restricted to the necessary time in Court. In addition, for time spent prior to the hearing to enable the witness to give evidence a qualifying fee is payable. For a qualifying fee in either the High or County Court the time chargeable is limited – very strictly indeed – to that pertinent to the question being tried by the Court.'

Yours faithfully,

H. L.

Government Investigations: Accountants' Fees

SIR, – With reference to the letter which appeared under this heading in your issue of October 27th, your correspondent's data is not full enough for others to be dogmatic, hence I deal with the matter on broad principles only. No other profession or supply service on which industry depends would dream of undertaking unpaid service. There is no reason why an accountant should do work gratuitously in the circumstances disclosed. Indeed, the type of job in question, if well done, has within it the merit which justifies a complicated scale fee. Hence, if your correspondent re-examines every step in his work he will discover the necessary links which he misses at present.

So much are these things acknowledged in commercial life that even quite small concerns sometimes use and pay for cost consultants to service the government department's accounting representative.

Yours faithfully,

London, WC2. R. SPROULL.

Distribution Charges

SIR, – A company, 75 per cent of whose controlling shares are held by a non-resident corporation, makes its first distribution for over ten years during 1950, and this distribution far exceeds the profits on which non-distribution relief has been obtained.

The Revenue contend that 25 per cent of the *total* distribution is liable to tax at the higher rate, and are, of course applying the additional 20 per cent to the whole of the 1950 profit.

Presumably, if further distributions were made, and these, together with that already made, were to total four times the profits for 1947 onwards, Section 39 of the Finance Act, 1947, would cease to have any effect whatever.

It seems to me the intention of this section is that only 25 per cent of the profits from 1947 on, should bear the full rate in these circumstances, and I am wondering whether any reader knows of any authority for either course.

Yours faithfully,

QUESTIONER.

French for 'True and Fair View'

SIR, – It is many years since I left school and ceased my studies of the French language, but I still possess my copy of Cassell's French Dictionary and so I venture to add my version to the many already published, of translations into French of 'true and fair view'. My contribution is:

Un coup d'œil, fidele et blond.

Yours faithfully,

LANGUE DANS JOUE.

T[illegible]NSTITUTE OF [illegible]ARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

ᴧt special and ordinary meetings of the Council, held ɩn Wednesday, November 7th, 1951, at the Hall of he Institute, Moorgate Place, London, EC2, there vere present:

Mr C. W. Boyce, C.B.E., President, in the chair, Mr T. B. Robson, M.B.E., Vice-President, Messrs Graham Adam, L.C., H. Garton Ash, O.B.E., M.C., Sir Harold Barton, Messrs '. Hamilton Baynes, B. H. Binder, T. Fleming Birch, . Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. 'reeman, S. H. Gillett, M.C., P. F. Granger, D. V. House, I. Crewdson Howard, W. H. Lawson, C.B.E., W. R. MacGregor, K. A. E. Moore, P. Morgan-Jones, S. J. 'ears, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, ;. F. Saunders, Gilbert D. Shepperd, M.B.E., B. Smallpeice, :. E. Spicer, C. M. Strachan, O.B.E., E. D. Taylor, T. A. .acy Thompson, D.S.O., M.C., E. G. Turner, M.C., A. D. Valker, T. Walton, Sir Nicholas Waterhouse, K.B.E., with he Secretary and an Assistant Secretary.

Readmission

)ne application for readmission to membership was cceded to.

Reduction in Period of Service under Articles

'hree applications under bye-law 61 for a reduction in he period of service under articles were acceded to.

Three applications under bye-law 63 (*c*) for a reduction in the period of service under articles were cceded to.

Exemption from the Preliminary Examination

'our applications under bye-law 79 for exemption rom the Preliminary examination were acceded to.

One application under bye-law 63 (*a*) for exemption rom the Preliminary examination was acceded to and ɩne application was not acceded to.

Exemption from the Intermediate Examination

'hree applications under bye-law 85 (*b*) for exemption rom the Intermediate examination were acceded to.

Eighteen applications under bye-law 85 (*a*) for xemption from the Intermediate examination by rticled clerks who had produced evidence of having raduated by taking one of the degree courses approved ɩy the Council under bye-law 62 were acceded to nd two applications were not acceded to.

Students' Societies

'he formation of the following Students' Societies ras reported –

(*a*) The Chartered Accountant Students' Society of North Lincolnshire.

(*b*) The North Yorkshire and South Durham Chartered Accountant Students' Society.

Appointments while Serving under Articles

'wo applications under bye-law 57 from articled clerks ɔr permission to accept appointments while serving nder articles were acceded to.

Articled Clerk in Industrial Organization

One application under bye-law 58 (*c*) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

Intermediate Examination

An application under bye-law 81 from an articled clerk for permission to sit for the Intermediate examination prior to the expiration of one half of his period of service under articles was not acceded to.

Final Examination

Two applications under bye-law 86 for permission to sit for the final examination six months earlier than the date at which they would normally be eligible to sit were acceded to and three applications were not acceded to.

One application under bye-law 63 (*e*) for permission to sit for the Final examination in November 1951 was acceded to.

British Institute of Management: Register of Management and Industrial Consultants

The Council has had under consideration whether it is appropriate for a member of the Institute to have his name or that of any firm or company of which he may be a partner or director included in a Register of Management and Industrial Consultants which is maintained by the British Institute of Management for the benefit of its members. This register is open only to those individuals, firms or companies whose business is limited to consultancy work, and practising accountants whose business is not so limited are not eligible for inclusion in it. The Council has informed the British Institute of Management that it has, after detailed consideration, decided that permission cannot be given to a member of The Institute of Chartered Accountants in England and Wales for the name of any firm or company of which such a member is a partner or director to be included in the Register of Management and Industrial Consultants which is maintained by the British Institute of Management if that firm or company undertakes in the course of its duties any work which comes within the field of public accountancy.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following thirty-five associates who have commenced to practice:

Bostock, Christopher Ingram, M.A.; 1951, A.C.A.; (Annan, Dexter & Co), 21 Ironmonger Lane, London, EC2.

Brown, Ronald Popple; 1939, A.C.A.; (*Whitson & Brown), Castle Hotel, Usk, Monmouthshire.

Burt, Victor Dennis; 1948, A.C.A.; (Ballam, Denton & Co), 5 Museum Street, Ipswich, and at Felixstowe.

Chappell, Jack Royston; 1950, A.C.A.; 98 Woodford Avenue, Ilford, Essex.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Colven, Stuart John; 1948, A.C.A.; 20[redacted] Road, Denton, Newcastle upon Tyne, 5.
Cooke, Ronald William; 1951, A.C.A.; (H. Overton, Salt & Co), 52 High Street, Sutton Coldfield, Warwickshire, and at Birmingham.
Cox, Norman Theodore; 1939, A.C.A.; (F. J. Reed & Co), 49 Leadenhall Street, London, EC3.
Delahunty, Paul Vincent; 1951, A.C.A.; (Frank Wilkinson), 327 Stretford Road, Manchester, 15.
Derrick, Raymond Brooke; 1935, A.C.A.; (T. O. Williams & C. V. Smith), 15 Rodney Road, Cheltenham.
Evans, Barton Edward; 1951, A.C.A.; (*Ivor E. Evans, Son & Co), Bank Building, 1, 2 & 3 Taff Street, Pontypridd, Glamorgan.
Hargrave, Thomas Beresford; 1949, A.C.A.; (T. Beresford Hargrave & Co), 27–31 High Street, Croydon, Surrey.
Hilliar, Edwin John; 1951, A.C.A.; 65 Town Street, Shepton Mallet, Somerset.
Hobson, Stanley; 1951, A.C.A.; 170 Edwards Lane, Sherwood, Nottingham.
Hogbin, Frank Anthony; 1950, A.C.A.; 140 Sandgate Road, Folkestone, Kent.
Hope, Harry; 1948, A.C.A.; 3 Shrewbridge Crescent, Nantwich, Cheshire.
Humberstone, Alec Peter; 1949, A.C.A.; Little Butcher Lane, Cornmarket, Louth, Lincolnshire.
Hunter, Arthur Alexander; 1951, A.C.A.; (Kenneth Hayes & Co), London Assurance House, 36 Bennetts Hill, Birmingham, 2.
Hyatt, Frank; 1951, A.C.A.; (W. G. Hawson, Wing & Co), Hartshead Chambers, Sheffield, 1.
Illingworth, Eric Henry; 1951, A.C.A.; (*Armitage & Norton), Station Street Buildings, Huddersfield.
Johnson, Michael Gordon Dixon; 1950, A.C.A.; (Wilkinson & Johnson), 35 West Sunniside, Sunderland.
Kendal, George Taylor; 1949, A.C.A.; 52 Corporation Street, Manchester, 4.
Lindsay, David Allen; 1928, A.C.A.; 3 Greenhayes Avenue, Banstead, Surrey.
Littlewood, George Ronald; 1950, A.C.A.; (W. G. Hawson, Wing & Co), Hartshead Chambers, Sheffield, 1.
McLaughlin, Dennis William; 1942, A.C.A.; (Thorne, Widgery & Co), Grange Walk, Leominster.
Nicholson, Keith Aubrey, V.R.D.; 1938, A.C.A.; (Dixon, Wilson, Tubbs & Gillett), 24 Basinghall Street, London, EC2.
Shrier, Morris; 1948, A.C.A.; (Bradley, Lytton & Co), Portland House, 73 Basinghall Street, London, EC2.
Stanton, Gerald; 1951, A.C.A.; 5 Warwick Road, London, SW5.
Taylor, George Arthur, B.COM.; 1934, A.C.A.; (*Cattell & Chater), Bank Chambers, High Street, Kettering, and at Rushden.
Taylor, Walter William; 1951, A.C.A.; 20 Wrekin Road, Erdington, Birmingham, 23.
Touche, Anthony George; 1951, A.C.A.; (*George A. Touche & Co), Suffolk House, Laurence Pountney Hill, London, EC4, and at Birmingham.
Waring, Geoffrey Philip; 1948, A.C.A.; (*Charles E. Dolby & Son), 11 Dale Street, Liverpool, 2.
Weaver, Ronald Ernest; 1949, A.C.A.; (Deacon, Guild & Co), Lloyds Bank Chambers, Greyfriars Lane, Coventry.
Willis, Norman Geoffrey; 1951, A.C.A.; (Poulsom & Co), National Bank Building, Fenwick Street, and Pioneer Assurance Chambers, 31 Dale Street, Liverpool, 2.
Winograd, Stanley; 1950, A.C.A.; (*Goodman, Jones & Co), 3 Broad Street Buildings, Liverpool Street, London, EC2.
Woodruff, Hedley; 1937, A.C.A.; (W. G. Hawson, Wing & Co), Hartshead Chambers, Sheffield, 1.

(2) That one associate be elected to fellowship under clauses 9 and 31 of the Supplemental Charter (Bye-law 37).

(3) That twenty-one associates be elected to fellowship under clause 6 of the Supplemental Charter (Bye-law 31).

(4) That one [redacted] to fellowship unde clauses 6 and 31 of the [redacted]ental Charter (Bye law 31).

(5) That four applicants be admitted as associate under clause 9 of the Supplemental Charter (Bye law 36).

A list of those who complete their fellowship o membership before November 20th will appear i *The Accountant* of November 24th.

Chairman and Vice-Chairman of Committee

The appointment of the following Chairman and Vice Chairman of the Parliamentary and Law Committe was reported:

Chairman	*Vice-Chairman*
W. H. Lawson, C.B.E.	W. S. Carrington.

Autumnal Meeting - Torquay, 1951

The Council decided that a limited number of copie of the report of the autumnal meeting containing th papers presented at the meeting, which is to be sent fre to all members of the Institute, shall be printed and mad available to the public at the price of 5s per copy pos free. Applications for copies, accompanied by remit tance, should be addressed to the Secretary, Institut of Chartered Accountants in England and Wales Moorgate Place, London, EC2.

Appointment to Committee

Mr W. L. Barrows was appointed a member of th General Purposes Committee.

Branch District Societies

The formation of the following branch societies wa reported:

(*a*) Bolton branch of the Manchester Society o Chartered Accountants.
(*b*) Grimsby and North Lincolnshire group o Chartered Accountants (Hull, East Yorkshir and Lincolnshire Society).

Notes on the Allocation of Expense

On the report of the Parliamentary and Law Committee following consideration of a memorandum submitte by the Taxation and Research Committee, the Counci authorized the printing and issue to all members of th Institute of a pamphlet of NOTES ON THE ALLOCATIO OF EXPENSE.

Approved Universities Degree Course: Bye-law 62

The Council decided that the B.Sc.(Econ.) degre course of the University of London shall cease to b an approved degree course for the purpose of bye-la 62 where it is taken by evening classes, this withdraw to operate for students who commence their degre course after September 30th, 1952.

Librarian

The resignation as from December 31st next of M Reginald Horrox, M.A., Librarian of the Institute sinc 1948 was received with very much regret.

Mr H. W. Thomson, the present Library Assistan was appointed Librarian with effect from January 1s 1952.

Registration of Articles

The Secretary reported that 214 articles of clerkship were registered during the month of October, making a total of 1,115 since January 1st, 1951, as compared with 1,185 in the previous year.

American Institute of Accountants

The Council received the report of Mr Alan S. MacIver, Secretary of the Institute, on his visit to the sixty-fourth annual meeting of the American Institute of Accountants held at Atlantic City from October 6th to 10th, 1951.

Nederlands Instituut van Accountants

The Council received the report of Mr Douglas A. Clarke, LL.B., F.C.A., on his visit, as representative of the Institute, to the Yearday of the Nederlands Instituut van Accountants held in Amsterdam on October 6th, 1951. A unanimous vote of thanks was passed to Mr Clarke for undertaking to visit Amsterdam on behalf of the Institute.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Hugh Vaughan Blackstone, A.C.A., London.
,, Robert Joseph Brandon, F.C.A., Clifton-on-Teme.
,, Henry William Southcott Burge, A.C.A., London.
,, Richard Ecroyd Clark, A.C.A., Hanley.
,, Wilfrid Simpson Heslop, F.C.A., Newcastle upon Tyne.
,, Tom Selwyn Jones, F.C.A., London.
,, Christopher Charles Tollit, M.A., F.C.A., New York.
,, Lionel Henry West, F.C.A., London.
,, Ronald Casson Whineray, F.C.A., Barrow-in-Furness.
,, Frank Wilkinson, A.C.A., Manchester.

THE HULL, EAST YORKSHIRE AND LINCOLNSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

BIENNIAL DINNER

The biennial dinner of The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants was held in the Guildhall, Hull, on Friday, November 9th, 1951, with Mr G. B. Robins, F.C.A., President of the Society, in the chair. Members and guests numbering over 140 were received by Mr Robins, Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Col. N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A., Vice-President of the Society.

Among the guests were Mr W. R. Austen Hudson, Member of Parliament for North Hull; Mr Norman W. Slack, President of the Hull Incorporated Law Society; Mr A. H. Pike, President of the Hull and District Centre of the Institute of Bankers; and

Messrs W. Barr (*Secretary, Hull Incorporated Chamber of Commerce and Shipping*); T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); Harold Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); J. Camamile, F.C.A. (*President, Lincoln and South Lincolnshire Group of the Society*); G. D. F. Dillon, B.A., F.C.A. (*President, London and District Society of Chartered Accountants*); Col. A. J. Downs, T.D., F.C.A.; Mr Derek du Pré (*Editor, 'The Accountant'*).

Messrs Eric Edwards, M.B.E., A.A.C.C.A. (*President, Hull and District Society, Association of Certified and Corporate Accountants*), Wilfrid B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); E. Haycock (*President, Hull and District Chamber of Trade*); E. J. R. Hett, J.P. (*President, Lincolnshire Incorporated Law Society*); M. W. Jones, B.COM., F.C.A. (*President, Manchester Society of Chartered Accountants*).

Messrs T. C. Kettlewell, F.I.C.S. (*President, Goole Chamber of Commerce and Shipping*); A. Macdonald, F.S.A.A. (*President, Incorporated Accountants' Hull and District Society*); Alan S. MacIver, M.C. (*Secretary, Institute of Chartered Accountants in England and Wales*); T. B. MacKim (*Managing Editor, 'Hull Daily Mail'*); T. W. Mackrill, F.C.A. (*President, Chartered Accountant Students' Society of Kingston upon Hull*); F. M. Medhurst, M.B.E. (*President, Hull Incorporated Chamber of Commerce and Shipping*).

Messrs A. G. Pearson, F.C.A. (*President, Grimsby and North Lincolnshire Group of the Society*); C. H. Pollard, O.B.E., F.I.M.T.A. (*City Treasurer, Kingston upon Hull*); Col. A. V. Rhodes, M.C., T.D., J.P. (*Registrar, Kingston upon Hull County Court*).

Messrs D. Patrick Shackles (*Hon. Secretary, Incorporated Law Society*); N. S. Staveley (*Hon. Secretary, Chartered Accountants Students' Society, Kingston upon Hull*).

Mr Cyril E. Taylor, F.A.I. (*President, Hull Institute of Estate Agents*); *H.M. Inspectors of Taxes of the five Hull Districts, together with H.M. Inspector of Taxes from Selby; Managers of the principal local branches of the Midland, National Provincial, Barclays, Martins, Yorkshire Penny, Williams Deacon's Banks, and the Actuary of the Hull Savings Bank.*

43rd Year of Queen Victoria's Reign

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Norman W. Slack, in the absence of Mr H. B. Hylton-Foster, K.C., M.P., who was unable to attend the dinner owing to Parliamentary and other duties.

In the course of his speech, Mr Slack quoted from the petition attached to the original Charter of the Institute and compared the position of members of the Institute in the 43rd year of Queen Victoria's reign with their position today:

'Income-tax was then very small – about 2*d* I think – and the temptation of your clients to do wrong must have been very small and your duties to keep them on the right and narrow path must have been very easy.'

Activities of Unqualified Accountants

In the course of his reply to the toast Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales said:

'Yesterday I presided at the annual meeting of the representatives of the district societies and of the Council. A considerable number of interesting points were raised and a very full discussion took place on each of them. Complete notes are taken of the views expressed by the various speakers and I can assure you that full consideration

is given to those views by the appropriate committees of the Council.

'Two societies with large rural areas raised the question of the growth and activities of unqualified accountants. I have no doubt that our members in the country districts feel the competition from unqualified persons and organizations whose standards fall below those of the recognized bodies to a far greater extent than those practising in the larger towns.

'It is no secret that what has been called co-ordination of the profession has been under discussion for several years past and many proposals have been critically examined. An acceptable solution has not yet been found, but the responsible Committee is still actively engaged in trying to find one which will meet with the approval of our members. The designation 'chartered accountant' is one of which we of the Institute are justifiably proud, and the Council will not take any steps which might tend to a lowering of the high standard of professional efficiency and conduct which has been built up during the past seventy-one years.' (Hear, hear.)

A toast to 'The trade and commerce of East Lincolnshire and Yorkshire' was proposed by Mr Robins, who made 'the human element' a feature of his delightful speech; it was answered by Mr W. R. Austen Hudson, M.P. Col. Hart proposed 'Our Guests', Mr Pike replied, and the proceedings concluded with an expression of appreciation to the Hon. Secretary, Mr A. S. Freeth Oliver, F.C.A., by Mr Robins.

NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY

History was made in Nottingham on the evening of Friday, November 9th, at the *Victoria Station Hotel*, when the Nottingham Chartered Accountant Students' Society – though one of the oldest in the country – held its first independent dinner.

The company of well over 100 members and guests was presided over by Mr C. L. O'Callaghan, A.C.A., A.S.A.A., President of the Society. The principle guests were Councillor Sydney Hobson, Sheriff of Nottingham (deputizing for the Lord Mayor of Nottingham who was indisposed), Mr E. G. Turner, M.C., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales (representing Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., who also was indisposed), His Honour Judge A. C. Caporn, and Professor Robert Peers, O.B.E., M.C., M.A., J.P., Deputy Vice-Chancellor of the University of Nottingham.

Other guests included:

Messrs J. G. S. Abbott (*H.M. Senior Inspector of Taxes*); L. R. Allen, D.S.O., O.B.E. (*President, Nottingham Chamber of Commerce*); D. W. Aylett (*President, Nottingham Junior Chamber of Commerce*); C. W. Bingham, T.D., F.C.A. (*Vice-President, Nottingham Chartered Accountant Students' Society*); J. Boydell, F.S.A.A., F.I.M.T.A. (*City Treasurer of Nottingham*); E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*); W. W. Fea, B.A., A.C.A. (*Member of the Taxation and Research Committee, Institute of Chartered Accountants in England and Wales*).

Messrs P. F. Granger, F.C.A. (*Member of the Council, Institute of Chartered Accountants in England and Wales*); S. Lloyd Jones; C. J. Mason, F.C.A.; A. C. G. Rothera (*Vice-President, Nottingham Law Students' Society*); P. W. Skinner, F.S.A.A. (*President, Incorporated Accountants' District Society of Nottingham, Derby and Lincoln*); A. E. Webb (*Assistant Editor, 'The Accountant'*).

Following the loyal toast, the toast of 'The Lord Mayor and the City of Nottingham' was proposed in a well-turned and witty speech by Mr C. W. Bingham, Vice-President of the Society. The Sheriff of Nottingham conveying good wishes from the Lord Mayor, replied.

In proposing the toast of 'The Institute of Chartered Accountants in England and Wales', His Honour Judge A. C. Caporn appealed to students to foster and preserve 'one of the few remaining assets left in this land of ours' – a reputation for straightforwardness in financial matters, be they public or private.

'Public Enemy No 2'

Replying, Mr E. G. Turner, M.C., F.C.A., paid tribute to Sir Harold Howitt's personal prestige and referred to the fact that he was to be President of the Sixth International Congress on Accounting to be held in London next year. Proceeding, Mr Turner described himself, amid laughter, as 'public enemy No. 2'. By this he meant his vice-chairmanship of the Examination Committee of the Institute. In regard to examinations it was the job of the Committee and the examiners to work hard to see that only the best were turned loose on the 'unsuspecting public'. (Laughter.)

'Examiners are told clearly at the outset there are two things we do not want', said Mr Turner. Firstly, they were not merely required 'to show us how clever they are'. Secondly, they were not in possession of the pass mark. Only the chairman, the vice-chairman and the moderators knew the pass mark.

Merit – the Only Determining Factor

Mr Turner continued that the moderators' job was to see that a general level of severity in the examinations was maintained. The greatest endeavours were made to ensure that the standard was kept at a level neither more nor less severe. There was no limit to the numbers who were allowed to pass – the only determining factor was the merit of the candidate.

The toast of 'The Nottingham Society of Chartered Accountants and the Nottingham Chartered Accountant Students' Society' was proposed by Professor Robert Peers, and was responded to by Mr E. P. Broome, F.C.A., President of the senior society, and Mr O'Callaghan. Mr Broome advocated increasing contact between members of the senior and junior societies, and was happy to state that Nottingham had a most progressive and successful education scheme.

Mr O'Callaghan said there was a more important consideration than passing examinations. It was integrity. He read a telegram from Sir Harold Howitt expressing good wishes and recalling happy memories of his Nottingham days; a presentation clock was a treasured reminder of Sir Harold's early secretaryship of the Nottingham Students' Society. (Applause.)

The toast of 'The Guests' was admirably proposed by Mr P. R. Hannah, a student, and was responded to by Mr L. R. Allen, D.S.O., O.B.E.

The whole occasion was one of dignity – in which Mr Michael A. Foulds, who most ably performed the duty of toastmaster, played no small part – mingled with a great deal of wit, good humour, and wisdom.

NOTES AND NOTICES

Personal

MESSRS A. T. NIVEN & CO, Chartered Accountants, of 4 Queensferry Street, Edinburgh, 2, announce that Mr C. H. O. TULLOCH, C.A., has been assumed a partner in the firm.

MESSRS HODGSON, HARRIS & CO, Chartered Accountants, announce that they have opened offices at 15 South Charlotte Street, Edinburgh, 2. Telephone: Edinburgh 34718.

MESSRS WALTER HUNTER, BARTLETT, THOMAS & CO, Incorporated Accountants, of 24 Bridge Street, Newport, Mon, announce that as from November 1st, 1951, they have taken into partnership Mr C. H. DAWSON, A.S.A.A. The name of the firm will remain unchanged.

MR MAURICE C. HOLMES and MR HARRY PRICE, Chartered Accountants, of 4 High Street, Hailsham, announce that they have entered into partnership with Mr REGINALD WELLS, of 2 Kirby Croft Chambers, North Street, Hailsham, and the combined practice will be continued under the name of HOLMES, PRICE & WELLS, at the former address. Mr HOLMES and Mr PRICE are continuing to practise at 21 Gildredge Road, Eastbourne, in the name and style of HOLMES, PRICE & CO., Chartered Accountants.

MESSRS WRIGHT, STEVENS & LLOYD, Chartered Accountants, of Norfolk House, Laurence Pountney Hill, London, EC4, announce that as from November 1st, 1951, they have taken into partnership Mr IAN MURDO MACDONALD, A.C.A., A.S.A.A., who served his articles with Mr C. STEVENS and has since been a member of the staff for some years.

MESSRS SPOFFORTH & PRINCE, Chartered Accountants, of Clifford's Inn, Fleet Street, London, EC4, announce that Mr MICHAEL GORDON SPOFFORTH, A.C.A., has been admitted to partnership as from October 1st, 1951.

MESSRS PEAT, MARWICK, MITCHELL & CO announce that their Newcastle office is now situated at 17 Eldon Square, Newcastle upon Tyne, 1. Telephone 28815–9.

MESSRS W. Y. THOMSON & CO, Chartered Accountants, of 16–18 Clapham Junction Approach, London, SW11, and Clifton Buildings, Avenue Road, Freshwater, Isle of Wight, announce that they have admitted to partnership as from October 1st, 1951, Mr DEREK BERNARD STRETTON, A.C.A., and Mr JOHN NORRIS DAVIE, A.C.A., both of whom have been with the firm a number of years. The name of the firm will remain unchanged.

MESSRS BOURNER, BULLOCK & CO, Chartered Accountants, of Hanley; Stoke on Trent; Leek, Staffs; Congleton, Cheshire, and St Austell, Cornwall, announce with regret the death on October 24th, 1951, of Mr RICHARD ECROYD CLARK, A.C.A., who had been a partner in the firm since 1931.

MR W. E. PRICE, F.C.A., of 7 St Stephen's Street, Bristol, 1, announces that he has taken into partnership, as from November 1st, 1951, Mr D. J. COURTNEY, A.C.A., who has been associated with him for some years. The style of the firm, Messrs WILLIAM PRICE & CO, Chartered Accountants, remains unchanged.

Professional Note

Regent Oil Co Ltd announce that Mr J. Becke, M.B.E., T.D., A.C.A., has been appointed commercial director of Regent Oil Co Ltd with effect from and including November 5th, 1951. Mr Becke was previously the business manager of the company.

Public Works Loan Board

RATES INCREASED

The Treasury has announced that following the Chancellor of the Exchequer's recent announcement in the House of Commons that the long-term rate of interest on advances to local authorities by the Public Works Loan Board is to be increased from 3 per cent to 3¾ per cent, loans advanced to local authorities by the Board on and after November 10th, 1951, until further notice, shall carry the following rates of interest:

Loans for not more than 5 years, 2 per cent.
Loans for more than 5 years but not more than 15 years, 3 per cent.
Loans for more than 15 years, 3¾ per cent.

The rates of interest which were previously in effect, since January 1948, were 2 per cent, 2½ per cent and 3 per cent respectively; the rate for loans for not more than five years is thus left unchanged.

Building Society Mortgage Interest

The following statement was issued on Friday of last week by the Council of The Building Societies Association:

> At its ordinary monthly meeting today the Council's attention was drawn to statements in several newspapers foreshadowing an increase in the rate of interest payable on mortgage advances made by building societies for house purchase. The Council, having reviewed the present position, has decided to recommend no change in the rate of

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interest charged on these advances by building societies. While the Council must obviously be guided by future trends, it is and always has been the Association's endeavour to make home-ownership available at the least possible cost.

The Dublin Society of Chartered Accountants

The annual general meeting of the Dublin Society of Chartered Accountants was held at the Engineers' Hall, 35 Dawson Street, Dublin, on Thursday, October 18th, 1951, with Mr D. McC. Watson, F.C.A., in the chair.

In moving the adoption of the report of the committee and of the accounts, the chairman referred to the removal of the Society's library to a building recently purchased by the Institute of Chartered Accountants in Ireland, at 7 Fitzwilliam Place. The new accommodation is a great improvement on the old, and it was hoped that members would benefit considerably from the change. During the year a number of luncheon meetings had been held and addressed by guest speakers on a variety of interesting subjects, while the annual golf competition had been the most successful for many years with a total entry of fifty-two.

A very full and interesting discussion took place on the future programme of the Society, and the hope was expressed that members would make full use of the facilities offered to them of meeting socially, and of joining in the discussions of subjects of interest to the profession which were held from time to time.

The office bearers elected for the ensuing year are as follows:

Chairman: Mr C. F. Smith, F.C.A.
Vice-Chairman: Mr K. Briscoe, F.C.A.
Hon. Secretary: Mr D. W. Pratt, A.C.A.
Hon. Treasurer: Mr G. L. M. Wheeler, A.C.A.
Committee: The Chairman, Vice-Chairman, Hon. Secretary, Hon. Treasurer, and Messrs P. Butler, F.C.A., H. H. Forsyth, F.C.A., E. A. Grace, A.C.A., J. Malone, A.C.A., H. W. Robinson, F.C.A., D. McC. Watson, F.C.A.

The Institute of Actuaries

An ordinary general meeting will be held in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, EC2, on Monday, November 26th, at 5 p.m., at which there will be a discussion on a memorandum prepared by the Joint Mortality Investigation Committee entitled 'Mortality of life office annuitants'. Copies of the memorandum may be obtained by application to the Assistant Secretary. Members may bring guests.

The Institute of Cost and Works Accountants

The second London regional conference, of which the general theme will be 'The problem of the expanding business', will be held on December 8th, at the Waldorf Hotel, Aldwych, WC2. Papers will be presented by: Mr A. F. Stewart, of the B.I.M. Personnel Division, on 'The personnel problem'; Mr F. G. English, M.I.PROD.E., on 'The production problem'; Mr W. Coutts Donald, C.A., F.C.W.A., on 'The financial and accounting problem'. At luncheon the guest of honour will be Mr J. B. Kinross, General Manager, Industrial and Commercial Finance Corporation.

Annotated Tax Cases

Part four of Volume XXX of the *Annotated Tax Cases*, edited by Mr Roy Borneman, of Gray's Inn, Barrister-at-Law, is published today, by Gee & Co (Publishers) Ltd, London, and contains reports, with notes on the judgments of the following cases: *St Aubyn Estates Ltd v. Attorney-General* (H.L.); *D'Avigdor-Goldsmid v. C.I.R.* (C.A.); *Dale v. C.I.R.* (K.R.); *Higgs v. Olivier* (Ch.D.); *Lamson Paragon Supply Co Ltd v. C.I.R.* (Ch.D.); *Rex v. Morleston and Litchurch Commissioners; ex parte G. R. Turner Ltd* (K.B.D.).

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF NOVEMBER 18TH, 1876

Extract from 'Notes in Passing'

An Accountant and Builder

A person describing himself as 'an accountant and builder' has recently been examined in the Glasgow Bankruptcy Court. It would seem that he at first started with the noble resolve of being an accountant only; but owing to some unfortunate circumstances – possibly an inadequate knowledge of arithmetic – he was always in difficulties. Whether he then entirely withdrew himself from his professional pursuits still remains in obscurity; but that he for a while turned his energies to a sort of itinerant house-furnishing is sufficiently clear. The fickle goddess, however, still fled from his embraces, and in furnishing other people's houses he succeeded in unfurnishing his own by incurring a loss of some £300. But hope spring's eternal even in a house-furnishing accountant's breast, and we next find him engaged in certain building transactions which, it is pathetically remarked 'had not turned out favourably'. This was the last straw; the unsuccessful man promptly betook himself to the Bankruptcy Court, in connexion with which he will probably learn something of the duties of accountants who are not at the same time house-furnishers and builders.

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The Accountant

ESTABLISHED 1874

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THE ALLOCATION OF OVERHEADS

DESPITE the accountant's preoccupation, early in his career, with the laborious process of posting, the allocation of overhead expenses in such a way that the maximum of information may be derived directly, or easily deduced, from the resultant groupings is not always carried out to the best advantage. It is with a view to aiding members in their understanding of this important aspect of accounting, that the Council of The Institute of Chartered Accountants in England and Wales has just added to its growing list of useful publications a pamphlet[1] which reviews broadly the technique of allocating overhead expenditure and explains some of the benefits to be obtained from the process.

The Council begins its notes by dividing the allocation of expenses into two categories, 'primary' and 'secondary'. These words are used for identification purposes only and are not intended to indicate either the relative degree of importance of the two classes or the order in which the allocations they connote should be made. 'Primary' allocation is intended to denote the assignment of expense to those headings which, by their titles, indicate the nature of the expenditure, familiar examples being rent, lighting and advertising. The main purposes of this allocation are to show the kinds of expense which are being incurred by the business and to compare the amounts for each kind, year by year. It does not, however, show the cost to the business of individual departments or activities. To obtain this it is necessary to achieve a different grouping which, for convenience, the Council calls a 'secondary' allocation. By this arrangement, the expenditure is displayed in relation to the functions of departments or cost-centres and can be easily selected and regrouped for the two main purposes for which it is designed – controlling expenditure and ascertaining cost.

One of the differences between the two types of allocation is that whereas the primary allocation is certain, the constituent items being factual, the secondary may be uncertain as it involves, in many cases, the apportionment of expenditure on what must necessarily be an arbitrary basis. The degree of accuracy achieved by the latter depends largely on the time and intellectual effort applied to the task. While the bases of allocation should be carefully considered at the outset and constantly brought up to date in the light of changing conditions, it should also be remembered that, as well as accuracy, the other virtues most appreciated by management in connexion with the presentation of information are speed and simplicity.

[1] 'Notes on the Allocation of Expense', issued by the Council of The Institute of Chartered Accountants in England and Wales.

The Council's notes deal with four special points to be observed when making a secondary allocation. The first is that the identity of the items in the earlier primary allocation, if one has been made, should be preserved for as long as practicable and useful. For example, if the charges for, say, heating and rent are to be allocated departmentally on the basis of floor space occupied and those for holiday pay and timekeepers' wages on the basis of wages paid, then four distinct transfers should be made so that the departmental accounts show the proportion of the charge for each item, and not two transfers representing the total allocable charge under each basis. Secondly, when an individual is responsible for any item or items of expense of a department, the allocation must be made in a way which will reflect his ability to control the expenditure in question. For instance, a departmental manager could not object to a heating charge based on metered consumption, but might reasonably do so if the basis of allocation was on floor space occupied. Thirdly, it is often necessary to allocate expense to a department to find the cost of running it and afterwards to re-allocate the total thus ascertained to other departments. Simple examples are a works clinic and the power-house. Such transfers are generally made at ascertained or standard cost, but it may sometimes be thought desirable to charge for services at a fair market value. Thus, the power-house might 'sell' its current at the Electricity Board's local rate, with the double advantage that the receiving department would be charged at an economic rate and the accounts of the power-house prepared on a proper profit and loss basis.

The fourth point is that expenses are usually allocated at their ascertained or estimated or standard cost, but it may be considered more equitable to charge an economic rate, as in the case of inter-departmental transfers referred to above, or, where identical services are charged to a production department at differing rates, to fix an average. An instance of the latter might be depreciation calculated on similar machines bought at varying prices. Any differences between ascertained cost and notional or standard amounts charged to departments would normally be shown as variances.

The last part of the Council's pamphlet elaborates the chief purposes of secondary allocation which, as already stated, are control of expenditure and ascertainment of cost. Control is exercised by a comparison of expenses with those of previous periods, or with figures ranging from a modest expenditure budget to a fully-fashioned system of standard costs. The breakdown of expenses afforded by a secondary allocation also helps to define more exactly the boundaries of individual responsibility for differences between estimates and actual results.

In any manufacturing business, costs have to be ascertained for many purposes, among them – reviewing the profitability of products, determining selling prices, valuing stocks, complying with price-control regulations, providing information for government departments, deciding whether it is cheaper to manufacture certain components or to buy them from outside, and assessing the relative value and effectiveness of the various activities within the business. For each of these, the build-up of costs will almost certainly vary, so that the framework of a secondary allocation must be sufficiently comprehensive, detailed and adaptable to offer a logical and accurate selection of expense items appropriate to the particular cost to be ascertained. In considering, for example, the selling price in relation to the cost of a product, warehouse and selling charges would be included but they would be excluded as irrelevant if the problem was to decide whether to manufacture a component in the factory or to buy it ready-made from outside. On the more general methods of applying non-manufacturing expenses to product costs, the Council gives some sound advice and it concludes by stressing, with reasons and examples, the desirability of so designing the form of a secondary allocation as to preserve the distinction between fixed and variable expenses in order that costs, derived therefrom, may show the effect of both including and excluding the elements of fixed expense.

Altogether, the Council is to be congratulated on a publication which should help considerably towards a clearer understanding of costs. The subject-matter, to an accountant, may not appear profound – or is that an illusion caused by the Council's skill in clarity of exposition? – but even if it is a case of 'what oft was thought but ne'er so well expressed', the impetus to further reflection which the pamphlet is sure to promote, is ample justification for its welcome appearance.

ACCOUNTS FOR EVERYMAN

A PLEA FOR CLARITY

by J. HALLIWELL, A.C.A., A.M.I.I.A.

AT one time the annual accounts of a business were virtually the sole concern of the proprietors, and requests by the Inland Revenue authorities for copies of these accounts were felt to be almost an impertinence. Today, however, copies of annual accounts are sent to the appropriate Inspector of Taxes as a matter of routine, and recent years have seen other sections of the community taking an increased interest in the results shown by published accounts, particularly those of the large public companies.

Governments regard 'profits' as a natural source of funds to support programmes of social welfare, defence and nationalization. Trades unions quote published profits in support of demands for higher wages or better working conditions for employees, and comment on the profits of big companies is no longer confined to the financial pages of newspapers.

When accounts were simply the concern of the proprietors of a business, the form in which they were presented could vary considerably within the requirements of the Companies Act, provided the proprietors understood what they meant. Now that the accounts are of wider interest, the manner of presentation and the words employed frequently lead to misunderstandings.

Interpretation of Accounts

The Companies Act defines the legal responsibility of the auditor, but it is becoming increasingly obvious that it is in the interests of their employers that accountants and auditors should consider more than the requirements of Acts of Parliament and the Inland Revenue authorities. If the accounts published by industrial organizations are going to be used in arguments which may affect the financial position of industry, it is vital to avoid misinterpretation of those accounts.

The general public usually finds it difficult to understand the conventional form of published accounts. Recognizing this, many large organizations are experimenting with more informative financial statements issued as appendices to the annual accounts – statements which usually show clearly the net worth of the business. Admittedly this information can be calculated from the conventional form of balance sheet, but the general public should not be expected to consult an accountant to interpret published accounts. It is not necessary for accountants to call attention to their mathematical ability by producing balance sheets which flaunt totals which agree with each other, but which mean nothing and serve no purpose.

Terminological Vagueness

The word 'profit' is possibly the most overworked word in the business dictionary today. Distinctions between gross profit, net profit, taxable profit and divisible profit are usually ignored in political discussions and are not understood by the majority of the population. This is hardly surprising, as accountants themselves are not always consistent in applying these terms, but any lack of clarity may be a serious matter in these days when many people appear to regard the making of profit as reprehensible.

Industrialists often find themselves most uncertain about what is meant by 'cost'. During the war, the various organizations set up to maintain efficient operation of industry under emergency conditions, found an almost unbelievable divergence of interpretation of 'cost'. Even the various government departments were not consistent in the methods used to determine cost.

The existence of these problems is recognized by the various attempts which have been made to deal with particular aspects in a somewhat piecemeal fashion, and it is suggested that the prestige of accountants would be enhanced if their professional bodies would take positive action leading to the publication of accounts which would be clearly understood by that well-known individual the 'man in the street'. It would be encouraging to see all annual accounts accompanied by a financial statement showing clearly the fixed assets of the business, its working capital, and the net worth subdivided to show the sources of that net worth, e.g. share capital, long-term advances or undistributed earnings.

Some Suggestions

As a first step, the writer suggests, a committee might be set up to consider the problem and determine whether it is practicable to make recommendations for the guidance of those preparing annual accounts and other published financial statements. The deliberations of the

committee might also embrace the preparation of a dictionary of accounting terminology, giving clear definitions of the recommended limitations of meaning to be attributed to various terms in general use.

That misleading term 'gross profit' could, for instance, be superseded by an alternative expression such as 'manufacturing margin' or 'trading margin'. While the word 'profit' might perhaps be reserved for the *actual net increase* in the worth of a business after providing for taxes and setting aside any sums necessary to maintain the fixed assets. Other so-called 'profits' might be described as 'earnings'. The difficulties implicit in any attempt to standardize the compilation of cost are, of course, considerable, but it would be better to achieve some measure of standardization than to allow the current lack of uniformity to continue. At present, an accountant, asked for his opinion on the equitability of a certain cost, must invariably preface his answer by the not unfamiliar phrase 'it depends what you mean by . . .'.

Whatever the political views of future governments may be, there is no doubt that the interest of the community in the affairs of private enterprise will be maintained, and accountants will be expected to make quite clear what is meant by the published financial results of industrial and commercial effort. This, in the opinion of the writer, would be no small contribution towards a lessening of the misunderstanding and misrepresentation which are among the prime causes of disputes and distrust between capital and labour.

THE EFFECT OF TAXATION UPON INDUSTRY AND THE INDIVIDUAL

by E. G. TURNER, M.C., F.C.A.

WHEN I was asked to read a paper with this title my first reaction was that there would be no difficulty in finding material for it. Later, when I began to put my thoughts on paper, I realized that a very large book could be written upon the subject – and a depressing book it would be.

It is impossible in the time at my disposal, and within the limits of your patience, to deal with the subject exhaustively and I can only hope to provoke thought and discussion. I am conscious that much of what I have to say will be well known to you all, though you will probably not agree with me that the conclusions I reach, or the inferences I draw, are correct. If you do not, you will have an opportunity later of expressing your dissent.

I must make it quite clear at the outset that the opinions expressed in this paper are my own and in no way represent the views of the Council; indeed it is possible that some of my Council colleagues may be among my first critics.

Definitions

First, let me define the terms – Taxation, Industry and Individual – in the sense in which I shall use them in this paper.

By 'Taxation', I mean all the methods of extracting cash from the pockets of the community, either by means of direct assessment or by indirect contribution to the national exchequer, whether during the lifetime of the taxpayer or after his death, which the ingenuity of successive Chancellors has devised. I do not need to particularize these methods, for they are well known to us all, but I include, not only income-tax and sur-tax, the profits tax and estate duties, but also purchase tax and excise duties and even the national insurance contributions.

By 'Industry', I mean any form of activity carried on for the purpose of earning profit or reward which involves the effort of more than one person to earn that reward and where the relationship of employer and employee exists within the framework of the organization. In other words, any activity requiring the employment of both capital and labour where the decisions of the proprietors will affect the well-being of those employed by them. I exclude from this definition the activities of those who do not employ others, because such people are more appropriately dealt with as 'individuals'.

By 'Individuals', I mean, in addition to the *rentier* and pensioner, all those people who rely entirely upon their personal efforts for their reward, and who require capital sufficient only to provide the tools of their trade or calling, be these merely the clothes in which they stand up or the more elaborate equipment of the dentist.

Functions of Government

Adam Smith, in his *Wealth of Nations*, written in 1776, postulated that there were only three functions to which a government should attend, namely:

1. The protection of all its citizens from external force or fraud;
2. The protection of each against force or fraud of the others; and

An address delivered on October 13th, 1951, at the twentieth autumnal meeting of The Institute of Chartered Accountants in England and Wales, held at Torquay.

3. The provision of other conveniences that are to the advantage of all but which nobody regards as being his special duty to provide.

Until comparatively recent times, this somewhat narrow concept was accepted in this country and taxation was levied merely to produce sufficient income to balance essential governmental expenditure. To budget for a substantial surplus would have been regarded as an unwarrantable step and even minor extravagances on the part of the administration provoked heated debates in both Houses of Parliament.

The individual was left to manage his own affairs and to carry his burdens without assistance from the State. Life was hard for the mass of the people and the conditions in which many of them lived and worked would not be tolerated today. The fittest survived, however, and, for this and other reasons – for example, climatic, geographical and traditional – developed a sturdiness and independence of character that brought greatness and prosperity to this country.

The system was harsh in many respects and many of the weaker members of the community were exploited by those with greater ability or economic power. No thinking person would advocate a return to those conditions, but the pendulum can swing too far. Too much State aid does not develop enterprise or self-discipline in the individual.

One of the principal aims of government today is to improve the lot of the under-dog (an ideal with which none of us would quarrel). Taxation is no longer levied to balance the essential expenditure of government, but has become a major instrument of economic and social policy in levelling out inequalities in the standards of life of the various sections of the community and in controlling the activities of industry.

The social services and the family allowances now in operation are indicative of the levelling process, and the imposition of the purchase tax, ranging from 100 per cent on luxury goods to 33⅓ per cent on semi-essential goods, is illustrative of the attempt being made to discourage home consumption and to direct the efforts of industry into channels which tend to increase our export trade or to accelerate the rate of production of material for military purposes.

To provide the revenue required to meet the costs of achieving, or attempting to achieve, these aims, would place a heavy burden upon the community in times of peace. To do so, in times when money is also needed to maintain an adequate defence against external dangers, imposes a greater financial burden upon us than was found to be necessary during the war. In addition to an enormous increase in the amount raised by indirect taxation, more money was collected by means of direct taxation in 1949–50 than in any of the war years, and the estimates for 1951–52 show that the amount to be raised this year is still greater, by some £125 million. Some part of this burden is said to be intended to counter the inflationary effect of too much money chasing too few goods. In my opinion the result is the reverse, for high taxation has a tendency to increase the costs of production and to discourage economy in industry, whilst the penal rates of the purchase tax and other excise duties set up demands for wage increases which are one of the prime causes of inflation. If one also considers the effect upon the prices of goods and services of burdens such as local rates, the taxes on petrol and light oil, and the profit element of the charges made for the general post office services, their inflationary effect is at once apparent.

Characteristics of Taxation

In addition to his postulates as to the functions of government, Adam Smith also laid down four maxims which he regarded as fundamental in any equitable system of taxation, and it may be instructive for us to consider these in the light of the experience gained since he stated them – nearly two centuries ago. These maxims were (in the main I quote his words):

1. That subjects of the State ought to contribute towards the support of government as nearly as possible in relation to their respective abilities to do so, i.e. in relation to the revenue enjoyed by them under the protection of the State;
2. That the tax each is bound to pay ought to be certain and not arbitrary, and that there should be no doubt as to the time of payment, the manner of payment and the quantity to be paid. In this connexion he stated that certainty as to these matters is so important that a considerable degree of inequality is not nearly so great an evil as a very small degree of uncertainty;
3. That every tax should be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it; and
4. That every tax ought to be so contrived as to both take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State. Adam Smith's elaboration on this point is illuminating, for he stresses four matters under this heading (again I mainly quote):
   (*a*) that the cost of collection shall not be so great as to nullify the benefit to the State;
   (*b*) that the burden of the tax shall not obstruct the industry of the people and discourage them from applying themselves to certain branches of business which might give maintenance and employment to great multitudes;
   (*c*) that the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax may frequently ruin them and thereby put an end to the benefit which the community might have received from the employment of their capital; and
   (*d*) that subjecting the people to the frequent visits and the odious examination of the tax-

gatherers may expose them to much unnecessary trouble, vexation and oppression.

There is little in any of these maxims with which we would disagree today. Whether or not we are satisfied that these conditions are still being fulfilled is largely a matter of opinion. It will be thought by many that the burdens of taxation are not spread equitably over the various members of the community and that the manner of assessing the amount to be paid is much too complicated and therefore uncertain. Perhaps the greatest uncertainty today is occasioned by too frequent changes in the rates of tax, many of which are made for political rather than for fiscal reasons, and, moreover, are made with retrospective effect.

The many complexities of our direct taxation code create uncertainties as to the effect the adoption of a particular policy will have upon the tax liabilities of the business concerned. As a result, business men are hampered in their activities in that decisions which should be made promptly are frequently delayed, and opportunities thereby lost, because they are nervous of taking action until they are satisfied as to the tax position.

In my view, far too much time and thought is spent by business men and accountants in considering the probable effects of taxation in given circumstances and endeavouring, quite properly, to choose a course of action which will result in the smallest possible tax liability. Unfortunately, with taxation at its present level, it would be most dangerous to do otherwise.

The profits tax clearly illustrates how taxation is used to control business policy. The higher rate of profits tax on distributed profits is designed to discourage the payment of dividends. Its effect, however, is to induce some companies to raise long-term capital by way of loan rather than by the issue of shares. Carried to extremes, this policy may well be dangerous to the companies concerned should bad times be encountered, for the non-payment of interest will usually be followed by the calling in of the loan. Moreover, there is no certainty that the next Finance Act will not remove the present advantage that this means of raising capital affords.

Volume and Incidence of Taxation

It is necessary in any consideration of the effect of taxation upon a community to consider not only the volume of money taken from the pockets of its members, but to appreciate its incidence upon the various sections of that community.

The ninety-third report of the Commissioners of His Majesty's Inland Revenue (published in January, 1951) gives much interesting information. The figures I now quote are taken from this and earlier reports of the Commissioners, and from the 1951 Budget statement made by Mr Gaitskell.

The Exchequer receipts in 1939–40 and 1950–51 were:

	1939–40 £ million	1950–51 £ million
Inland Revenue, i.e. direct taxes including death duties ..	583	2,038
Customs and Excise	400	1,630
Motor Vehicles	34	61
G.P.O. and Sundries	32	249
	£1,049	£3,978

The drain from the community to the national exchequer was, therefore, nearly four times greater last year than it was in 1939–40 – the first of the years affected by the war. For some years prior to that, the total Exchequer receipts were of the order of £800 million. These figures do not cover the whole of the taxation envisaged by my definition because I therein include contributions to the national insurance scheme.

According to a report issued by the Treasury in April 1951, the national income was two and a quarter times greater in 1950 than it was in 1938, i.e. £11,970 million in 1950, against £5,253 million in 1938.

In this period, the number of people with incomes above the exemption limits for income-tax purposes increased from 10 to nearly 21 million. In each of these years, however, approximately 6 million were entirely relieved from the burden of income-tax by the operation of allowances, so that the number of taxpayers increased in this period from 4 to 15 million.

This increase in the number of taxpayers arose from various causes of which the more obvious are:

1. The general increase in wage levels;
2. The lowering of the exemption limits and personal allowances at the commencement of the war – which have not yet been fully restored;
3. The influx of women into industry during the war – many of whom have remained in industry; and
4. The introduction of the P.A.Y.E. scheme whereby every non-exempt employee is automatically charged with tax.

The income assessed for income-tax purposes in 1948–49 (after capital allowances) amounted to some £8,850 million, of which £5,850 million was assessed under Schedule E, nearly £2,400 million under Schedule D, and the remaining £600 million under Schedules A, B and C.

The tax collected under Schedule E in 1948–49 amounted to £440 million upon an income of £5,850 million, or approximately 7½ per cent. The remaining £3,000 million of income produced some £1,000 million of income-tax, or approximately 33⅓ per cent. This latter group includes tax upon the profits of businesses and professions after deductions for the allowances due to sole proprietors and partners. In addition, sur-tax produced in 1948–49 some £100 million.

Ninety per cent of the assessments raised under Schedule D in 1948–49 related to sole proprietors and partnerships and accounted for some two-fifths of the

profits so assessed. Companies and local authorities, although only 10 per cent of the numbers assessed, earned some three-fifths of the profits assessed, namely, sole proprietors and firms £950 million and companies £1,420 million.

In 1909, when sur-tax was first introduced under the title of super-tax, income-tax was levied at a standard rate of 1*s* 2*d* in the £, with lower rates upon incomes under £3,000 per annum. Super-tax was charged at 6*d* in the £, upon income in excess of £3,000, if the total income exceeded £5,000.

Today, income-tax is at the standard rate of 9*s* 6*d* (with lower rates for the first two slices of taxable income) and sur-tax reaches 10*s* in the £ at the £15,000 level. For a man to have £5,000 of spendable income today he must have a gross income (even if all of it is earned) of some £65,000. The comparable pre-war figure was some £8,000.

The Chancellor of the Exchequer, in his address to the Trades Union Congress delegates at Blackpool in August last, stated that if all the excess net incomes above £2,000 a year were taken away it would bring in only £53 million, thereby showing how little more could be obtained by 'further heavy taxation of the rich'.

It is evident that, whilst the majority of the 'gainfully employed' adult population of this country pay income-taxes in varying degree, the heaviest burden falls on those who would normally save and invest some part of their earnings. These were the people who responded to the demands for the 'risk-capital' required by public companies, and includes those owners of businesses who, by ploughing back their profits, built up the many prosperous family concerns which have conducted so large a part of our industrial and commercial activity both at home and overseas.

The Effect upon Industry

Inflation has been taking place throughout the whole period of man's commercial activity, and there is no reason to suppose that the process will not continue for the remainder of time. The two world wars, however, set up economic stresses that have accelerated the rate of inflation to an alarming degree.

The excess profits taxes, introduced for the 1914 and 1939 wars, were designed, not only to provide money for war purposes, but to prevent industry from retaining profits made as a result of the national misfortunes – 'profiteering' as it was called. In my view, these taxes did immense harm to the economy of this country. They encouraged extravagances of all kinds, upset our carefully-balanced wage structure, and, by creating a disregard for 'cost', forced prices up to unprecedented levels.

The slump which followed the first war did much to restore a more realistic attitude towards production costs, but the second war, with excess profits tax at 100 per cent, income-tax at 10*s* and sur-tax at fantastic rates, brought about a return of many, if not all, of the extravagances of the first war period, though it must be admitted that these were checked in some degree by the licensing system, rationing, and other controls which operated in the second war period.

Since 1945 the world has been short of consumer goods, and primary materials have been in great demand by most countries, firstly, for reconstruction, and now for rearmament purposes. This universal demand for goods has forced prices up rapidly; wages have followed but, as usual, have lagged behind so that much industrial unrest has been occasioned.

In the last two years prices in this country have risen more steeply than ever. The rise in prices has been due, not only to taxation, but also has been affected by other factors, principally the devaluation of the £, the stockpiling of primary materials by the various governments for rearmament purposes and shortages of materials due to the restriction of imports in order to close the dollar gap.

High taxation drains from industry money that would otherwise be used for its development and for the replacement at enhanced prices of the quantity of goods disposed of in the ordinary course of business, such replacement being essential to maintain the quantitative capacity of the business.

The effect of rising price levels upon industry, in conjunction with the drain imposed by our taxation code, has been fully dealt with by the Council in its Recommendation No. XII. I cannot, in the time available, cover this ground again, but one paragraph is sufficiently in point to merit its quotation:

> 'The basis and scale of taxation in force in Great Britain are such that the extent to which profits can be retained in businesses for the purpose of adjusting under-capitalization (due to rising prices) is seriously restricted. The difference between the original monetary cost of stocks sold and the amount realized on the sale in the ordinary course of business is brought into account for taxation purposes; moreover, the allowances for taxation purposes in respect of the fixed assets are restricted to an amount equal to their original monetary cost. Profits are subjected not only to income-tax at 9*s* in the £, but also to profits tax in the case of corporate bodies and sur-tax in the case of individuals and partnerships. The amounts which might otherwise accrue in the course of trading and become available for meeting increased costs of replacement are thus gravely diminished.'

It is quite obvious that in times of inflation industry has need for more and more working capital in order to maintain the same volume of activity; but taxation at the rates now in force drains away a large part of the cash required to replace the goods that have been sold. One has but to look at the increase during the last twelve months in the amounts advanced by banks, on overdrafts, to realize the extent to which this shortage of working capital has been made good by borrowings.

The initial allowances introduced by the 1945 Act were designed to encourage manufacturers to modernize and extend their plants and, whilst doing no more than hasten the reliefs from taxation, already avail-

able, in respect of fixed assets, had the effect of easing the taxation drain in the period immediately following the expenditure of capital on these assets. For this reason they were universally welcomed by industry. The suspension of these allowances, in spite of the recommendations of the Tucker Committee, was no doubt due to the need to divert production to the rearmament programme, but it has removed an encouragement to industry which was greatly valued.

It is difficult to discover the extent to which the burden of death duties has affected the family business, but the threat of dissolution hangs over every business into which its proprietors have ploughed back their profits without making provision by means of outside investment for the duties payable on their death. In many cases it will have been quite impossible for the proprietors to have made such provision. The premature death of the proprietor, a too rapid expansion of the business, the effect of the inflationary trend upon the values adopted for estate duty purposes and, not least, the formidable rise in recent years in the rates of duty are all factors which greatly increase this threat. The annual amount collected by way of death duties is of the order of £200 million.

The expenditure upon social services, met in large measure by contributions by both employer and employee, has placed another heavy tax upon both of them.

The combined effect of high taxation (with its inflationary effect upon prices) and increasing production costs, which are themselves, in part at any rate, the direct or indirect result of such taxation, tends to force selling prices up to the limits imposed, either arbitrarily, by price controls, or naturally, by the amount of money in the pockets of potential consumers. These circumstances create demands for increased wages, and so the cycle continues, with mounting prices, lagging wages, and few deriving any benefit from the process.

Incentives

If human nature were more nearly perfect, the ideals of the welfare state might be achieved in large measure, but, unfortunately, man does not give of his best unless there is some spur to induce him to do so.

The natural incentives which the welfare state tends to remove are the fear of poverty on the one hand and the hope of reward on the other. We do not yet seem to have been able to find incentive schemes to replace them which will operate fairly in all cases. The main reward must be in the form of money, but there are others – pride in one's skill, in the ability to do a job better than the next man.

The scale of income-tax rates is such that the burden becomes heavier as earnings increase. The rates of tax step up steeply, and quite small increases in weekly wages bring the next rate into operation. The P.A.Y.E. machinery brings the effect of this scale to the notice of the wage earner immediately and forcibly. Whilst there is little evidence to show that this is a major deterrent, quite obviously it does nothing to encourage greater effort. Taxation at present levels tends to reduce the effect of the cash incentive, which is the one that makes the greatest and most immediate appeal to most people. For the others, specialization and mechanization have been developed to such an extent that most of the old craftsmanship has disappeared, and with it the pride of job that makes work a pleasure and therefore worth doing well. A lack of incentives results in a man doing only what he must, thus restricting output, increasing costs and selling prices and thereby making it increasingly difficult for him to purchase the things he and and his family need or would like to have.

Distortion of Costs

Taxes assessed upon profits are generally regarded in this country as appropriations of part of those profits to the national exchequer and not as expenses incurred in earning them. The expenditure by the government upon social services permits the individual to omit certain items of expense from his personal budget and tends to reduce the demands for wages that employees would otherwise make. Subsidies, whether they be in respect of food, or in the form of family allowances, have a similar effect. In so far as the cost of the social services and of these subsidies is met out of taxes upon profits, the true wage cost is not reflected in the accounts of employers, which, as a result, give a misleading picture of the costs of production.

The granting of subsidies on the one hand and on the other hand the imposition of indirect taxes on beer, tobacco, entertainment, or consumer goods, interact in such a way as to make it impossible to assess, with certainty, the true cost of living or to compare it with that obtaining in other countries.

Spending habits have changed considerably since the cost-of-living index was last reviewed, and the index is now generally regarded as out of date and unreliable.

The welfare state and its planned economies are all part of the same theory, and we must accept the fact that the present burden and design of taxation are, in the main, the result of this theory. Many people are too readily persuaded that the wit of man is sufficiently astute to plan the working of this world in an economic sense, but it is becoming painfully obvious that this is not so, and that, whilst economic forces can be directed or diverted for a period, they will reassert themselves with irresistible power in due time.

The Effect upon the Individual

There is no need for me to dwell upon the economic effect of the taxation drain upon the individual, for we know the extent of this from our own experience, but we ought to consider it from the point of view of the weekly wage earner.

The majority of the people who are paid by the week, budget by the week and spend by the week, and they quickly feel the effect of any additional

burden put upon their resources. After a man has had deducted from his pay his national insurance contribution, P.A.Y.E., sick club or pensions contributions, and has met his union subscription there is little enough left to pay for essentials and for the few pleasures open to him. When these in turn are put beyond his reach by inflated prices, aggravated by indirect taxation, it is not surprising that he looks, not at the number of pound notes in the packet, but at what they will buy. If there are not enough of them to let him buy what he has been accustomed to buy, then he will demand more. Nothing so quickly increases prices as an increase in wages, and yet every penny taken from the pay packet or added to the cost of a man's needs by way of taxation, be it for national insurance, income-tax or the tax on beer and tobacco, creates a sense of frustration and starts an agitation for a wage increase.

The removal of the natural incentives to which I have referred, tends to take from the individual the sense of responsibility for his own well-being on the one hand, and on the other the urge to improve his position.

The levelling-down process now in operation, in which taxation in its various forms is the principal tool, may well tend, if it continues, to produce a nation of mediocrities from which all initiative will have been removed.

The prosperity of this country has been built upon enterprise and it is a tragedy that men are tempted, to an increasing degree, to transfer their businesses overseas or to form companies overseas to carry on enterprises which would normally have been managed and operated from this country – a matter to which our President drew attention when he was in Birmingham in March of this year, and to prevent which the Chancellor has found it necessary to introduce penal clauses into the latest Finance Act. Such measures, coupled with the existing high rates of taxation, will do nothing to encourage overseas enterprises to use this country as a base of operations and they create further inducements to men with ideas to seek their fortunes outside the United Kingdom. To quote *The Times* of May 7th, 1951: 'this country, as time goes on, will control a wasting and ageing body of overseas resources while the new, vigorous and virgin resources will pass into other hands'.

Restriction of Savings

When the direct taxation drain is considered in relation to the reduced purchasing power of the pound and to the quadrupled burden of indirect taxation, it is evident that the ability of the individual to save has practically disappeared.

Some twenty-five to thirty years ago, most of the money required by our local authorities for capital expenditure for the development of our provincial towns was provided by the inhabitants of those towns in the form of small loans to their municipality. It was rarely necessary for the borough treasurer to seek money outside his town. This feature of our local government finance has practically disappeared.

Investment in private companies by individuals is seriously discouraged by the difficulties which arise at death in settling the value of shares therein with the Estate Duty Office (a matter upon which we have already been fully informed by the previous speakers at this conference).

Mr H. Nutcombe Hume, C.B.E., M.C., Chairman of the Charterhouse Investment Trust Ltd, in his review of that company's activities in 1950, expressed the opinion that the smaller units of production and employment are still the backbone of the trade of this country but that the private companies were being destroyed and their very fabric torn to pieces by death duties. He went on to say that hardly a day passed without his company being asked to help people to dispose of holdings in private companies in order to prepare for these duties.

The ability, or even the wish, of the family business to finance any major expansion has gone, and such businesses are finding great difficulty in retaining sufficient profit to maintain their existing level of activity.

The individual at every level of income is not only unable to save for investment or retirement, but is compelled, in many cases, to draw upon any savings he may possess to maintain the standard of life of himself and his family.

The spending of savings is hastened by the fear that inflation will make them worthless, and many prefer to change their money into goods, or to enjoy what it will now buy, and to rely upon the State to provide for them in their old age.

The right to participate in any pensions scheme the private owner may establish for his employees is, as yet, denied to the owner himself and he is compelled to rely upon building up a fund of capital out of taxed profits so that he may maintain himself when he retires. Even when it is possible for him to do so, the fund is usually represented by his business assets, which can only be realized by winding up or by selling the business as a going concern – a step which presupposes the existence of a buyer. The alternative is to find a suitable and trustworthy person to manage his business for him until the need to pay death duties enforces a sale. These difficulties may be postponed for a time, even for a generation, if the owner has a son able and willing to follow him, but sons are not always either willing or able to do so. The number of people with sufficient capital to enable them to purchase existing businesses (or shares in such businesses) or to set up in business on their own account is, moreover, rapidly diminishing.

All these factors have helped to create the position that now exists, namely that the main sources of money for long-term investment for private businesses are, firstly, the institutions (i.e. the insurance and certain other companies and the various pension funds) and, secondly, the two finance corporations set up by the banks at the request of the Government to bridge the capital gap as between the private and the public company.

This drift from private ownership is bound to continue with increasing rapidity until the burden of taxation is materially reduced. The existing trend can only result in the industry of this country being carried on, ultimately, either in very small or very large units, the latter being controlled by boards of management, the members of which have little or no financial stake in the undertaking.

The Moral Aspect

Lord Clyde, when President of the Court of Session, said:

> 'No man in this country is under the smallest obligation, moral or otherwise, so to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow – and quite rightly – to take every advantage which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket and the taxpayer is, in like manner, entitled to be as astute to prevent, as far as he possibly can, the depletion of his means by the Revenue.'

Since that time, the practice of introducing retrospective legislation, to counter the avoidance of tax by methods which were perfectly proper at the time, had greatly increased the powers of the Inland Revenue.

The odds, therefore, are overwhelmingly against the taxpayer in any battle of wits with those who administer our taxation laws.

A leading characteristic of the British citizen is his instinctive readiness to obey the law, but the present burden of taxation, combined with the lack of any hope of it being lessened in the foreseeable future, is, in my opinion, tending to undermine his morale and to make him examine the taxation laws, not with respect for their provisions, but with a view to discovering ways and means of minimizing the strain they impose upon his resources.

The battle of wits is perfectly proper, provided it is carried on honestly and that the whole of the facts are known to both sides, but the borderline between cleverness and fraud is dangerously narrow.

Lord Scarborough, in a speech at our autumnal conference at Harrogate, made these remarks:

> 'The British taxpayer has up to now been a remarkably strict and honest payer of his taxes as a whole. He wants, of course, to make sure that he does not shirk his true liability once it is ascertained, and it is in that respect that your profession sets such a high standard for its clients as well as yourselves. Only today, a business man of considerable eminence in this part of the world said to me that the highest tribute he could pay to the profession of chartered accountants was that he often found it difficult to make out whether they were on his side or on the side of the Inland Revenue.'

In the main, the tough fibre of the moral character of the taxpayer in this country has withstood the temptation to resort to dishonest means of tax evasion, but it is within the knowledge of us all that the temptation has been too strong for some people and a concerted drive is being made by the Inland Revenue authorities to combat this development by increasing their staffs so that they may examine more closely the returns and claims submitted to them.

The need for such a drive is emphasized in the report by the Committee of Public Accounts, issued in May of this year, which stated that there is 'a serious loss of revenue through failure to make assessments or through assessing at less than the proper figure' and that 'evasion was serious and widespread'. The report went on to say that there were fewer qualified Inspectors of Taxes than before the war and that the department had not the staff 'necessary to deal with the big cases of under-assessment which are thought to exist in the company sphere, much less to bring in the 80,000 traders who are thought to be escaping the revenue net altogether through lack of systematic investigation, nor can they grapple with certain methods of evasion which are well known and widely practised'.

These strong words are indicative of a state of affairs which is deplorable, for, as the committee goes on to say, the Department should be enabled at an early date to enforce full and prompt payment of taxes so as to lessen the extra burden which evasion of liability places on the general body of honest taxpayers and to remove the effect on public morale of the belief that well-known methods of evasion enable numbers of traders of the less reputable class consistently to avoid payment of the taxes due from them.

I leave you to judge against the background of your experience the extent to which the Committee was justified in making these comments – I believe them to be well founded.

The 1951 report of the Commissioners of Inland Revenue shows that over three-quarters of the assessments raised for 1948–49 upon sole traders related to profits of less than £500, and I have the feeling that the real profits of some of these businesses – many of which are doing a cash trade – are not being ascertained.

Conclusion

To sum up; the conception that taxation should only be levied to the extent that it was necessary to enable the Government to attend to the three basic functions postulated by Adam Smith has been expanded so that taxation has also become a powerful weapon with which to level out inequalities in the standards of life of the various sections of the community, and with which to control and direct the activities of industry.

The present drain from industry is such as to endanger its economic health, to diminish seriously the possibility of industrial expansion by any but the larger units of production, and to make it extremely difficult for most businesses to maintain their present level of activity.

The ability of the individual to save is restricted

or removed and cash incentives are largely discounted by the steep gradations in the rates of the direct taxes. These factors together with the menace of heavy death duties are creating a drift from private ownership which, in my opinion, is most unfortunate from the national point of view.

Last, but not least, is the effect upon public morale, as to which I have said enough to indicate the dangers of a trend towards self-preservation at all costs. It is in this connexion that we, as a profession, are likely to be more immediately affected. Our first duty is towards our clients, primarily to see that the great majority of honest people do not pay more than they should but also to protect, in large measure against themselves, people who, hearing of others who have used 'well-known methods of evasion', are tempted to resort to similar practices.

The members of this Institute of ours have built up over the years a reputation for honesty and integrity that is second to none, and it behoves each of us to guard and enhance that reputation, not only in our own interest, but in the interest of our clients.

At the end of his paper, Mr Turner read the following ten quotations from statements by Abraham Lincoln which he thought were particularly appropriate:

1. 'You cannot bring about prosperity by discouraging thrift.'
2. 'You cannot strengthen the weak by weakening the strong.'
3. 'You cannot help strong men by tearing down big men.'
4. 'You cannot help the wage-earner by pulling down the wage-payer.'
5. 'You cannot further the brotherhood of man by encouraging class hatred.'
6. 'You cannot help the poor by destroying the rich.'
7. 'You cannot establish sound security on borrowed money.'
8. 'You cannot keep out of trouble by spending more than you earn.'
9. 'You cannot build character and courage by taking away man's initiative and independence.'
10. 'You cannot help men permanently by doing for them what they could and should do for themselves.'

DISCUSSION

Opening the discussion on Mr Turner's paper, Mr E. DUNCAN TAYLOR, F.C.A. (Leeds), said:

The paper which has been presented to us by Mr Turner deals with a subject which is of interest to every one of us, both in our daily work and in our private lives, and we are indebted to him, both for the breadth of his survey and the skill with which he has avoided political controversy.

Mr Turner made it clear at the outset that the views expressed in the paper were his own and not those of the Council, and suggested the possibility that some of his Council colleagues might be among his first critics. So far from being one of Mr Turner's first critics, I welcome the opportunity of stating that I am in entire agreement with the conclusions he reaches.

The dangers to which he has drawn attention are, in my view, due mainly to the use of taxation as a means of re-distributing income and capital.

While we all desire to help those who are less fortunately placed than ourselves, the national income can only be raised by the development of new enterprises and by increased production and efficiency and, to achieve this, there must be incentives for everyone, whether they be manual workers, skilled craftsmen, black-coated workers, or those who risk their savings to found or develop business enterprises.

If those who accept risks are to be deprived of a fair reward and the fruits of increased effort and enterprise continue to be taxed at present rates, the ultimate result may well be not only to make the rich poor but to make the poor poorer. . . .

When one finds that as the result of increased taxation and inflation the purchasing power of an income of £10,000 is now approximately that of an income of £2,500 in the year 1938, and that an increase from £10,000 to £20,000 merely leaves the taxpayer with an additional £475, it is difficult to believe that incentives in the higher groups of income are not seriously affected. The fact that the harmful effects of high taxation of industrial profits may not have become generally apparent is due to restrictions upon capital expenditure, to inability to obtain delivery of new plant and to the time-lag between the earning of profits and the date when taxation becomes payable.

Although the burden of income-tax and profits-tax seriously weakens the ability of industry generally to make adequate provision for working capital and replacement of fixed assets, the greatest danger to the continued survival of family businesses, upon the success of which British industry has been built, is, in my view, the heavy increases in estate duty which have been imposed since 1938 and, in particular, the increase made by the Finance Act, 1949. Since 1938 the rate of duty on an estate of £50–£55,000 has been raised from 15 to 35 per cent, and on an estate of £100–£110,000 from 20 per cent to 50 per cent. Of these increases, 11 per cent and 15 per cent respectively came into operation on July 30th, 1949.

In many cases the total net retainable income arising between the deaths of father and son is insufficient to meet the liability to estate duty and it is difficult to see how the ownership of a family business of any size can be retained for more than one or two generations unless the law is amended.

If reduced rates of estate duty can be justified in the case of agricultural estates I think there are strong grounds for extending similar treatment to capital employed in family businesses.

The Board of Inland Revenue recently stated that no case had been produced to show the actual break-up of a business by estate duty, but their investigation only covered estate duty arising in 1948, i.e. a period prior to the very heavy increases imposed by the Finance Act, 1949.

During the past year I have been engaged in the liquidation of an old-established and successful business of public works contractors which has been discontinued and the assets realized to raise funds for the payment of estate duty following the death of the principal shareholder in September 1948, and it may well be that there are other similar cases.

While such cases may be rare, there has been a growing stream of family businesses which have been

either absorbed by large public undertakings or in which institutional investors have acquired an interest with a view to making provision in advance to meet the duties which will become payable on the death of the principal shareholders.

Mr Turner's definition of taxation tempts me to suggest a further point for discussion and that is whether the practice of selling foodstuffs below cost and meeting the charge on the Exchequer by the imposition of higher and more widespread charges for purchase tax and excise duties than would otherwise be necessary, borne largely by the people who benefit by the subsidies, should be continued.

It seems to me that if subsidies were withdrawn and the consequent saving were applied, first, in meeting the claims of the needy by raising pensions and family allowances and, secondly, in reducing purchase taxes and excise duties, there would be substantial savings in administration expenses and it would no longer be necessary to continue the rationing of foodstuffs in ample supply, such as sugar, as a means of reducing the loss falling on the Exchequer.

It is difficult for the layman to assess the effect of individual taxes upon the economic well-being of the nation, and I for one would welcome an impartial inquiry into government expenditure and the effect of taxation and subsidies upon the life and industry of the country.

Continuing the discussion, Mr GRAHAM ADAM, M.C., F.C.A. (Newcastle upon Tyne), said in the course of his remarks:

A first reading of Mr Turner's excellent paper made it clear, as I expected, that the various points which had occurred to me had been very much in the author's mind during its preparation.

While Mr Turner has left us little or nothing to criticize, there is, however, one aspect of the subject to which he refers in the paragraph headed 'Characteristics of taxation',[1] which is, I think, worthy of even more emphasis than it has been given – not only in the paper under discussion, but generally – and that is the mental effect of high taxation on us all, from those technically termed the working classes through the professional classes even to the high executives of large companies and their directors.

We who spend so much of our time endeavouring to understand taxation can appreciate the views of a miner, for example, who, having had an unusually large amount deducted under P.A.Y.E. for income-tax one week, decides to work fewer shifts the following week and spend his self-enforced leisure in endeavouring to keep down the rabbits which are pestering a neighbouring farmer, either by arrangement with the farmer, or otherwise. (Laughter.) Probably nobody would be able to convince that miner that he is being taxed, like his friends and the rest of the population, according to his income, and that there is nothing harsh or peculiar in the treatment accorded to him as an individual. So the production of coal suffers.

Nor do we, as a profession, fail to appreciate the attitude of our members who have joined the various nationalized industries in recent years, attracted by the high remuneration, pensions, etc., though personally I think it regrettable that a newly-qualified young man should be thinking of pensions. Nevertheless, as the various industries become more and more organized on a national or large-area basis, some of these employees are finding their jobs reduced to clerical repetition which could safely be entrusted to a competent junior or an intelligent secretary. So the thorough training during articles, and possibly responsible experience thereafter, either in a practising office or in industry, are wasted.

Again, a young professional man, say a dental surgeon, sets up in practice and endeavours to reduce the great amount of arrears to be made up in this country in dental work. He finds, of course, that he is doing very well, but is advised by an older fellow practitioner or his accountant that he should ease up, owing to the fact that the 'new business' provisions of the taxing statutes may render it unwise for him to make a large profit in his first year. And so, he rests on his oars when he should be going all out to establish a new practice, and lessen the aggregate of human misery. I speak with feeling as one who got his first dentures at the beginning of this week. (Laughter.)

Then there is the case of the well-to-do man, who formerly invested any spare money in new or old enterprises at home or abroad, which offered any reasonable prospect of success. He helped in some measure to provide employment, but now keeps a needlessly large sum to his credit in a current account at a bank, where it remains a buried talent except to the extent to which the bank can use money repayable on demand.

And so finance is lost to industry.

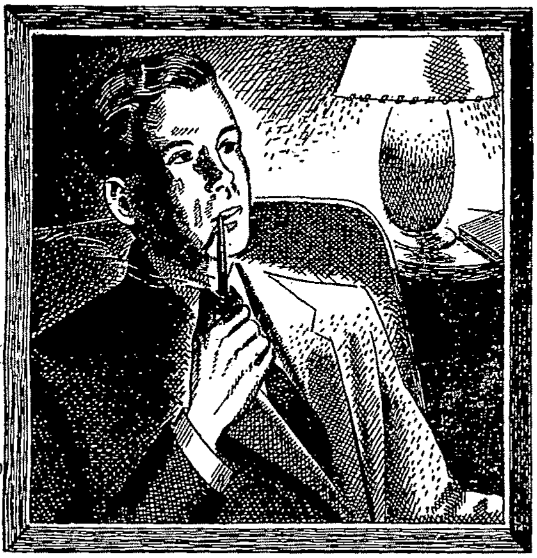
But to my mind the worst effect of the present high rates of taxation lies in the absolute obsession which the subject has become in the minds of everybody, including executives and directors of companies. In the latter cases this obsession sometimes operates to the extent of warping sound judgment on questions of policy, formed after careful consideration, or, as Mr Turner says, to the extent of delaying decisions which should be made promptly, until those concerned are completely satisfied as to the full implications of the proposed action from the taxation angle. The occasions on which complete satisfaction is possible are becoming fewer and fewer in these times when retrospective legislation or the effect of some artificial transaction clause in a new Finance Act may upset a carefully planned and until then perfectly legitimate policy; and it seems to me unfortunate, however flattering to the profession, that the accountant has to tell the directors what they should do, instead of being told of the policy decided upon.

In each of these examples, the country is losing something more or less tangible – coal, finance, dental services, etc. – but the major loss appears to me to reside in the creation of an attitude of mind of the 'safety first' variety, with the consequent loss of initiative and the pioneering spirit which made our nation what it is, both of which are still necessary in a competitive world if we are to survive as a great exporting nation and give our large population the fuller and better standard of living for which we all hope.

Truly, as Mr Turner says,

> 'far too much time and thought is spent by business men and accountants in considering the possible effects of taxation in given circumstances, and endeavouring, quite properly, to choose a course of action which will result in the smallest possible tax liability'.

[1] See page 497.



Sickness and Disability

Personal Unemployment

Life and Endowment

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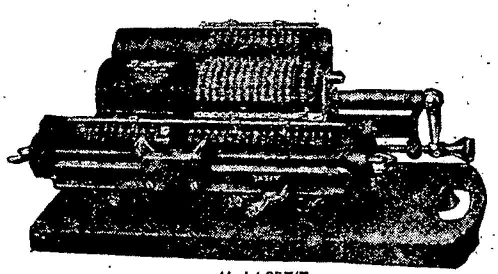

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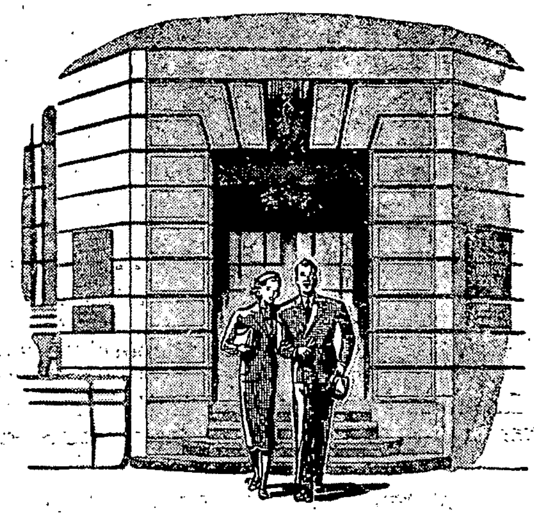

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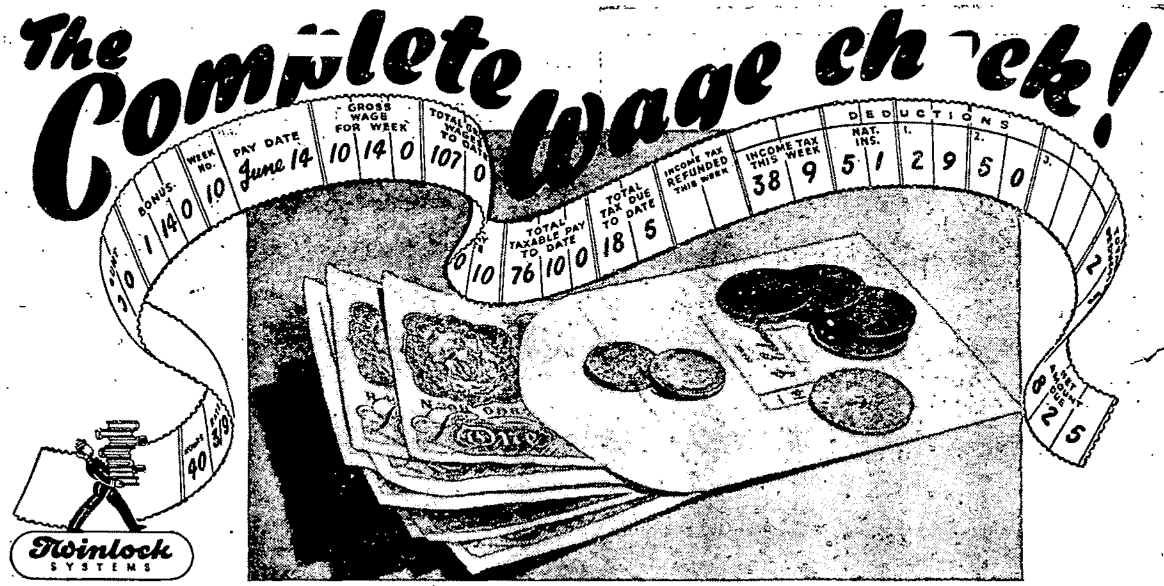

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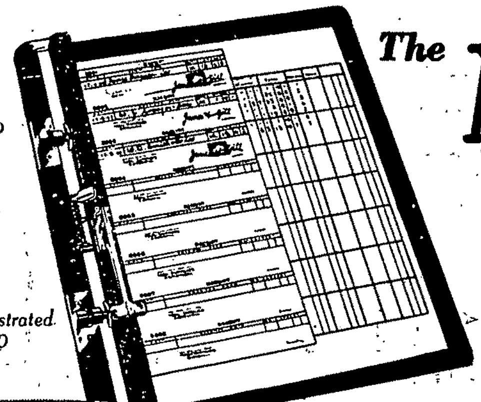

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WEEKLY NOTES

Education for Management

The report of the last of the four teams sent to the United States by the Anglo-American Council on Productivity to study the problems of training for industry – in this case, education for management – was published last Monday.[1] The team notes that practically every productivity team which has visited the United States has been of the opinion that productivity per man-year is higher than in Britain. The reasons therefor are, firstly, that Americans believe that the maximum effort is required of every individual if the best material standards and the enjoyment of a free society are to be preserved, and, secondly, that, inspired by this credo and stimulated by the American system of higher education, management (which is regarded as a vital factor in determining the rate of productivity) is maintained at a most efficient level. Business and the universities work together very closely (university professors not infrequently have seats on the boards of commercial companies) for it is generally realized that skill in management cannot come from theoretical training alone. In both spheres there is a dominant emphasis on the importance of human relations.

The team considers that as no comprehensive study of what is being done to teach administrative subjects in universities and technical colleges in Britain has been compiled, such a study should be undertaken as a matter of urgency.

Service of Writs and Documents on Companies

For several years it has been the settled practice that a writ will not be regarded as having been effectively served on a limited company if it is sent by *registered* post. But according to the recent ruling of Mr Justice Devlin in *T.O. Supplies (London) Ltd v. Jerry Creighton Ltd* (*The Times*, November 9th, 1951) this rule is not in accordance with Section 437 (1) of the Companies Act, 1948.

This provision in the Act of 1948, which corresponds to Section 370 of the 1929 Act, states that

> 'a document may be served on a company by leaving it at or sending it by post to the registered office of the company'.

The expression 'post' is not limited in any way, and Mr Justice Devlin considered that it was wide enough to cover both registered and ordinary post. He accordingly held that a writ which had been served by *registered* post on a company had been properly served, notwithstanding that the company in the events that had happened had never received it, and that the registered letter containing the writ had been returned through the 'dead letter' office to the plaintiffs.

[1] 'Education for Management'. The Anglo-American Council on Productivity, 21 Tothill Street, London, SW1 (4*s* 6*d* post free).

What in fact had happened was that the registered letter containing the writ had been redirected from the defendant company's registered office to their city office. It was received there during a staff holiday, by a saleswoman who declined to accept the letter as she thought the contents would be too important for her to attend to.

According to the law as laid down in the above case, not only writs but other documents will be effectively served on a limited company, if sent to the registered office of the company, either by ordinary or registered post. As a matter of precaution, registered post should always be preferred, since in the event of a dispute as to whether the document was received, due proof of registration will, with the assistance of the statutory presumption of service, invariably satisfy the court that the document did in fact reach the registered office of the company to which it was addressed.

Money Rates Shaking Loose ?

The second week of a higher bank rate opened with gilt-edged prices fractionally lower and an interesting situation in the money market. The net effect of what has been transpiring has been a slight hardening in both short- and long-term rates – in other words a fractionally higher rate of interest all round.

The discount market on Nov. 16th reduced its bid for Treasury bills by 2*d* per cent following the raising by the clearing banks of their buying rate for longer maturing bills. This meant in effect that the market raised its annual discount rate from 17*s* 4½*d* to about 18*s* 1*d* from one week to the other. On the other hand, there was a large under-allotment of Treasury bills, a matter of £70 million on the week. This followed the decision announced two weeks ago to offer a new funding series totalling £1,000 million to reduce the volume of short-term debt. This was the reduction working itself out.

Two more developments may be noted in this matter. The banks did not announce last week a rate at which they would buy bills from the market in the current week. This is one more sign that the money market is floating free into a state of affairs where supply and demand are the arbiters of price. Then, on Monday last, the discount market was forced 'into the Bank'. It had to accept 2 per cent for accommodation since the official buyer did not support the market – as he has done on such occasions in recent years.

So far as the long-term rate of interest is concerned, movements have been perhaps less significant. But, in addition to the general tendency for gilt-edged prices to drift downwards, one interesting feature of the new Lever Brothers and Unilever issue of £14 million 4 per cent debenture stock 1960/80 has not passed unnoticed in this connexion. The current rate of interest to redemption of the new stock is

almost £4 5s per cent. That for the 3¾ per cent issue in 1950 at the time of issue was around £3 17s. This is one more indication of the upward trend of rates.

Better Savings Figures

A notable improvement has taken place in recent weeks in the trend of savings. October saw the emergence of a net receipts figure (that is receipts less encashments) for the first time since last spring. This change has been reinforced by the results so far available for November.

The pace of improvement may be gauged by the fact that the net receipts for the second week of November were almost £3·2 million compared with £4·9 million for the whole of October. These results are also noteworthy if they are compared with the trend at this time last year. The figures were then recording a series of net encashments. A feature of the better figures of late has been the large part played by the post office and the trustee savings banks.

In a sense these results are perhaps not unexpected. They may well be the counterpart to the reluctance of the public to buy in the shops. But it is too early yet to say that here is the first sign of a confident reaction to a policy of mild, controlled deflation.

Electric Lamps: Monopoly Report

The Monopolies Commission issued their report on the electric lamp industry last week. The Commission have found that there is evidence of restriction of competition within the industry. Types of lamps to be manufactured, and common prices are agreed within the Electric Lamp Manufacturers' Association. Prices at various stages of distribution are also laid down and enforced by sanctions. There are also sales quotas fixed by the industry so that no company can increase its share of the United Kingdom market. The report also describes the patent policies of the companies in the Association and the way in which 'controlled' companies outside the Association but within the sphere of influence of Association members operate.

The Commission do not recommend that the fixing of common prices should be prohibited provided two conditions are fulfilled. The first is that technical information should be commonly available to all manufacturers charging common prices; the second is that prices shall be reasonable.

Other safeguards are recommended by the Commission. They think that E.L.M.A. members should make available components at the same prices to members and non-members, with certain specified exceptions; patent policy as now being revised by the Association should be watched to see that it does not reduce competition; 'controlled' companies should not be used as 'fighting' companies to remove competition; the sales quota system should be brought to an end, and the same fate should be meted out to arrangements for enforcing retail price maintenance.

Railway Wage Award

With the acceptance recently by the Associated Society of Locomotive Engineers and Firemen of the tribunal's award for a wage increase, all three unions concerned have given their approval. The Railway Staff National Tribunal's award was for an 8 per cent increase against 10 per cent asked by the operatives. Both sides of the industry have now accepted the compromise solution.

This solution may give the railways a chance to get down to the problem of labour efficiency undisturbed, for the time being at any rate. Meanwhile there are several other wage claims pending in key industries. A claim from the miners is still under discussion and the engineers have put a demand before the employers this week. Clothing workers' wages went up 2*d* an hour last week.

The Cotton Crop

Normally at this time of the year this country's balance of payments can expect some relief from the heavy seasonal imports which reach a peak in September and then ease off through October and November. This year such relief would be particularly welcome.

But from one source at least that relief is not likely to be forthcoming. There is every indication that this country's bill for raw materials over the next few months is going to be swollen by high cotton prices. Since August, the cotton crop estimate from the United States, which is the world's largest grower of raw cotton, has dropped from about 17·3 million bales to 15·8 million. This is still over 5 million bales higher than the crop last year but it has to be remembered that prices in America are already high, due to the price stabilization scheme which operates over there and also that the export quota is marginal to the American industry.

To some extent this country has been using other than cotton from the United States of late, in an effort to conserve dollars, but the amount taken from that source is still large enough to cause an additional stress on the balance of payments position.

E.P.U. in October

The large debit balance which this country had run up with the European Payments Union in October has been known for some time. The publication of the figures for the whole of the Union shows, however, that France is in much the same position. Only this country and France were in deficit to a considerable extent. The German cumulative deficit, which it will be recalled at one time constituted a serious threat to the working of E.P.U.'s clearing system has been reduced to $9 million.

The large creditors of the Union are now Belgium, Italy and Portugal. The surpluses of B.L.E.U. (the Benelux group) and Portugal now exceed their quotas and Italy now comes up to its quota. There are indications, however, that Belgium has been successful at least to a degree in preventing its surplus from getting out of hand.

FINANCE AND COMMERCE

Stock markets, already nervous and depressed by the general expectation of higher interest rates, have been almost demoralized by a spate of first-class new issues competing for investment funds. The net result has been a fall in gilt-edged values to levels at which the irredeemables show yields of 4¼ per cent with the long-dated issues very nearly on a full 4 per cent basis. Even this low level of prices has not encouraged any great deal of investment demand and in some quarters it is suggested that undated stocks may fall to a 4½ per cent yield basis before there is any real recovery.

Horlicks' Accounts

We reprint this week the accounts of Horlicks Ltd, a name known world-wide. While 'Horlicks' is a name by itself, however, it is interesting to note that the company has other lines, including one which seems remote from the original business. This is the new product, 'Air-Wick', which the chairman, Lieut.-Col. J. N. Horlick, says has been well received by the public. But the operating margin is low and the contribution it makes in terms of net profit is not yet material.

Special attention is drawn by the chairman to the weight of taxation which the profits have to bear. No less than two-thirds of total earnings, he says, are taken in direct taxation in various parts of the world. In a year of 'successful striving' in which the global net profit increased by £111,030 before taxation, there was an increase after taxation of no more than £20,708. In terms of cash, the tax collector took £356,273 from the year's trading, while stockholders received £80,417.

Referring to the balance sheet position, Col. Horlick says that at first sight the increase in net trading assets is a favourable sign, but it is important to note the much greater proportion of working capital now absorbed by stocks and debtors and the contraction in the immediately available resources, represented by marketable securities, cash, and tax reserve certificates. This depletion of fully liquid resources to meet increasing costs of raw and packing materials, and finished products, has gained momentum and has made it necessary to resort to bank borrowing on a considerable scale.

More Capital Needed

The time has come when more capital must be raised for the Horlicks business, both for expenditure on fixed assets and for working capital, and the creation of further capital is proposed.

The rather unusual construction of the balance sheet will be noticed. The opening on the liabilities side is 'Liabilities not due for payment', represented by the debenture and promissory note debt. This leaves 'Current liabilities etc.' as the next group, but out of line with 'Current assets' at the lower portion of the opposite side.

The year under review saw the establishment of new peaks for the company, both in turnover and profit. The chairman, however, sounds a note of warning. We cannot survive, he says, with government expenditure and taxation at anything like present levels. He sees the possibility of a fall in the standard of living.

He therefore proposes to carry forward the whole of the profit balance, after payment of the dividends, in the profit and loss carry-forward, 'thus making it directly available to offset any profit recession in the current year'.

Tyzack's Business

From Mr Peter Nicholas, A.C.A., we have received the accounts of W. Tyzack, Sons & Turner Ltd, of which he is assistant secretary. This is the Tyzack so well known for its saws and other tools. Mr Nicholas describes the nature of the business in his covering letter, but the report and accounts give no indication of the company's activities apart from the print of the trade-mark, an elephant over the word 'Nonpareil' within a circle. There is a whole blank page in this report that should have been given to a description of the business and its products.

The accounts, Mr Nicholas says, follow conventional lines which is, in itself, a commendation. One becomes used to a particular form of account and the eye takes in the facts presented at a glance.

In this case, we have a capital of £138,611, composed of £94,411 in 5s ordinary and £44,200 in 5¼ per cent £1 cumulative preference (free of tax up to 6s in the £). With revenue reserves and surplus, the total is £227,238. Fixed assets, including £100 for goodwill and trade-marks, total £89,490. Trade investments (£501) and current assets (£298,925) bring the balance sheet total to £388,916 which, after deduction of current liabilities (£128,328) and reserve for future taxation (£33,350), gives the net assets standing against shareholders' funds.

New Form

This year's accounts of Morphy-Richards Ltd, the makers of electric irons and toasters, are in a new form. The double-sided balance sheet, spread over two quarto sheets, has given place to a single-column statement on one quarto sheet. The statement has been compressed to the essentials. Current assets less current liabilities, less provisions, produces net current assets, to which is added fixed assets with subsequent deduction for future taxation and minority shareholders' interests, to produce capital employed. This total is then agreed with capital, reserves and surplus.

While the balance sheet has been compressed, however, the notes on the accounts have been extended

HORLICKS LIMITED

Consolidated Profit and Loss Account for the Year ended March 31st, 1951

		Horlicks Limited	Subsidiary Companies	Group Total	COMPARATIVE FIGURES 1949/50		*Horlicks Limited*	*Subsidiary Companies*	*Group Total*
	£	£	£	£		£	£	£	£
Trading Profit		586,409	125,256	711,665			529,138	69,204	598,342
Add Income from Investments (gross)		8,920	6,095	15,015			9,807	7,796	17,603
Profit (*Loss*) on Realization of Investments ..		(4,452)	(24)	(4,476)			(12,034)	248	(11,786)
Profit (*Loss*) on Sale of Fixed Assets		(2,308)	(1,151)	(3,459)			(2,051)	(177)	(2,228)
		£588,569	£130,176	£718,745			£524,860	£77,071	£601,931
Less Directors' Fees		4,000	—	4,000			4,000	—	4,000
Directors' Other Emoluments		32,852	18,247	51,099			36,701	17,921	54,622
Director's Compensation for Loss of Office ..		—	—	—			—	1,000	1,000
Depreciation		34,434	47,232	81,666			38,685	35,161	73,846
Audit Fees and Expenses		2,770	4,845	7,615			2,350	3,529	5,879
Interest on Debentures and Promissory Notes (gross)		22,723	—	22,723			21,972	—	21,972
		£96,779	£70,324	£167,103			£103,708	£57,611	£161,319
Net Profit before Taxation		£491,790	£59,852	£551,642			£421,152	£19,460	£440,612
Less Taxation on Profit for Year:									
Profits Tax		85,000	11,425	96,425			72,000	2,792	74,792
United Kingdom Income Tax:									
Year of Assessment 1950–51		160,000	10,844	170,844			145,000	6,618	151,618
Less Reserve at March 31st, 1950 ..		(160,000)	(12,463)	(172,463)			(145,000)	(6,618)	(151,618)
Reserve for 1951–52 Assessment ..		190,000	29,330	219,330			160,000	11,208	171,208
Taxation Equalization Reserve		10,000	10,959	20,959			15,000	—	15,000
Dominion and Foreign Income Tax:									
Year of Assessment 1950–51		15,000	(1,822)	13,178			17,000	(10,049)	6,951
Less Reserve at March 31st, 1950 ..		(15,000)	—	(15,000)			(17,000)	—	(17,000)
Reserve for 1951–52 Assessment ..		23,000	—	23,000			15,000	—	15,000
		£308,000	£48,273	£356,273			£262,000	£3,951	£265,951
Net Profit after Taxation		183.790	11,579	195,369			159,152	15,509	174,661
Inter-Company Dividends		2,893	(2,893)	—			2,893	(2,893)	—
Unrealized Surplus on Exchange		—	3,185	3,185			—	115,262	115,262
		£186,683	£11,871	£198,554			£162,045	£127,878	£289,923
Less Disposition of Currency Surplus:									
Goodwill (U.S.A) written off		—	—	—		56,894			
Transfer to Exchange Equalization Reserve		—	3,185	3,185		58,368	—	115,262	115,262
Transfers to (*from*) Reserve Accounts ..		(4,452)	155	(4,297)			107,966	457	108,423
Dividends (less Income Tax):									
Interim – paid April 2nd, 1951	36,667					36,667			
Final – recommended for payment	43,750	80,417	—	80,417		45,833	82,500	—	82,500
		£75,965	£3,340	£79,305			£190,466	£115,719	£306,185
Balance of Net Profit		110,718	8,531	119,249			(28,421)	12,159	(16,262)
Balance of Profit brought forward		53,679	49,042	102,721			47,100	36,883	
Provision for Subsidiary Company Losses transferred to Reserve							35,000		118,983
Balance of Profit carried forward		£164,397	£57,573	£221,970			£53,679	£49,042	£102,721

Note: Emoluments of Subsidiary Company Directors for the year ended March 31st, 1951, include £5,290 (*£1,125*) paid to a Director of Horlicks Ltd.

to two quarto pages. Much of the information in these notes is of the character frequently provided in chairman's statements with accounts. It can be more easily followed, however, in the notes in the form of financial statements.

Mr George Wansborough, the chairman, says that 'exporters in these days are often being exhorted to increase overseas prices to the very limit that the traffic will, momentarily, bear'. 'It is a false doctrine', he says, and adds: 'We believe that we should pursue the same policy towards our overseas customers as to our home customers, namely, to be content with just prices, to me a phrase which is medieval but not obsolete'.

Money Market

The Government's new monetary measures are having quick reaction in the money market. For the Treasury bill tender on November 16th, applications totalled £285,335,000 but only £160 million of the £230 million of bills offered were allotted. Furthermore, this week's offer is reduced to £170 million. Bidding at £99 15*s* 6*d*, the market obtained 41 per cent of requirements with the average rate hardening to 17*s* 10·66*d* per cent. There is no call against Treasury deposit receipts.

For the first time in nearly thirteen years the market has had to borrow at the Bank of England against Treasury bills in order to balance positions. The market can now borrow against Treasury bills at the new rate of 2 per cent for seven days. This evidence that the Government is quickly succeeding in its policy of reducing the floating debt and bringing greater flexibility to the money market has aroused expectation of a further bank rate increase, but no early move is anticipated.

HORLICKS LIMITED

Consolidated Balance Sheet as at March 31st, 1951

	£	£	£	1950
Liabilities not due for Payment				£
Secured				
4 per cent Debentures (constituting a floating charge upon the assets of the Company)		250,000		250,000
Unsecured				
3 per cent Promissory Notes ($1,150,000 U.S.A. payable $50,000 per annum 1951–73)		410,715		428,571
			660,715	678,571
Current Liabilities, Provisions and Dividends				
Sundry Creditors and Accrued Charges ..		602,783		481,283
Accrued Taxation		323,506		304,090
Accrued Interest		5,580		5,714
Deferred Repairs Provision		14,071		15,008
Dominion and Foreign Taxation Provision		—		9,139
Dividends (less Income Tax):				
Interim – paid April 2nd, 1951	36,667			36,667
Final – recommended for payment ..	43,750			45,833
		80,417		
Suspense Account (Difference on Inter-Company Accounts arising from different balancing dates)		842		
			1,027,199	897,734
Capital, Reserves and Surplus				
Authorized and Issued Capital				
2,000,000 Stock Units of 5s each ..		500,000		500,000
Excess Profits Tax Post-War Refund Suspense Account		48,550		48,550
				548,550
Revenue Reserves				
Replacement Reserves (incorporating excess Depreciation provisions) ..	553,798			553,798
United Kingdom Income Tax on profits for year to date	219,330			172,463
Taxation Equalization Reserve	40,959			20,000
Dominion and Foreign Income Tax on profits for year to date	23,000			15,000
General and Dividends Equalization Reserve	250,000			250,000
Miscellaneous Reserves	552,700			553,812
		1,639,787		1,565,073
Surplus: Profit unappropriated		221,970		102,721
			2,410,307	2,216,344
			£4,098,221	£3,792,649

	£	£	£	1950
Goodwill				£
Horlicks Ltd (entered upon the books in pursuance of a Resolution of the Directors dated January 15th, 1937)		150,000		150,000
Subsidiary Companies, at cost *less* amounts written off		65,083		53,533
			215,083	203,533
Fixed Assets				
Freehold Land and Buildings				
At 1948 Valuation	337,470			337,470
At Cost	490,520			424,670
	827,990			762,140
Less Depreciation	69,873			56,158
		758,117		705,982
Plant, Machinery, Furniture, Fittings, Equipment, and Motor Vehicles				
At 1948 Valuation	285,854			291,808
At Cost	812,083			611,609
	1,097,937			903,417
Less Depreciation	149,264			108,408
		948,673		795,009
			1,706,790	1,500,991
Excess Profits Tax Post-war Refund				
Cash on Deposit Account			16,607	41,607
Current Assets				
Stocks on hand, as valued by the Company's Officials		784,017		597,194
Sundry Debtors and Prepayments (*less* Provision for Doubtful Debts)		559,815		390,718
Suspense Account (Difference on Inter-Company Accounts arising from different balancing dates)				3,239
Investments, at Cost				
Quoted (Market Value £362,549 (*£389,381*))	332,159			381,156
Unquoted	4,257			4,230
		336,416		385,386
Tax Reserve Certificates		8,100		96,350
Cash at Bankers and in Transit at Home and Abroad		471,393		573,631
			2,159,741	2,046,518
			£4,098,221	£3,792,649

J. N. HORLICK
O. P. HORLICK } *Directors*

Notes:

1. The Directors are of the opinion that, because of the seasonal nature of parts of the businesses of two Subsidiary Companies, a true and fair view of trading results can best be obtained at September 30th. The Accounts of those Companies for the year ended September 30th, 1950, have been incorporated in the group accounts.

2. Contracts for Capital Expenditure not provided for are estimated at £290,614 (*£302,675*).

3. Balance Sheets of Overseas Subsidiaries and all other foreign currency balances have been converted at exchange rates closely approximating to those ruling on March 31st, 1951.

4. United Kingdom and Overseas Taxation Liabilities (including Excess Profits Tax) have not yet been finally agreed.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Profits Tax

SIR, – In the leading article headed 'The Royal Commission' in your issue of November 10th, you refer to the effect of profits tax distribution charges, and you state that where 75 per cent of the profit is retained it is insufficient to meet the contingent liability. Your explanation of this may, I fear, be misunderstood. There are three main reasons for this apparent anomaly, which broadly can be stated as follows:

(1) Although nominally 75 per cent is undistributed, the net amount after providing for taxation on the profits is less than 29 per cent.

(2) The rate of distribution charge since January 1st, 1951, is 40 per cent, so that the gross contingent liability is 30 per cent.

(3) It is unlikely that much, if any, income-tax relief will be obtained if and when a distribution charge becomes payable. The charge will only arise either when dividends are paid or other distributions are made in excess of profits or when ultimately the company is liquidated. In either case the available profits assessable to income-tax, if any, will probably be very small in comparison with the amount of the charge.

Incidentally, a liquidation in which a distribution charge might arise would probably be a members' voluntary liquidation and not a compulsory one as stated in your leading article.

Yours faithfully,

Manchester, 2. F. M. GILLIAT.

[We are obliged to Mr Gilliat for this clarification. Lack of space necessitated concise treatment of the point in the leading article referred to, and of course conciseness and clarity do not always go together in these matters. The kind of compulsory liquidation we had in mind was one where there was some dispute among the members. A company is not likely to wind up on its own accord if this will involve a heavy charge to profits tax. – Editor.]

Sur-tax Directions for the Final Period in a Liquidation

SIR, – On reading Mr English's excellent article on 'Easing an executor's burdens' in your issue of September 29th, I was interested in a statement made by the Solicitor-General, during the debate on the Special Contribution, which was quoted therein:

> 'I can give him the assurance that where the liquidation takes place for the purpose of reconstruction or amalgamation and not for the purpose of withdrawing funds from the company, in other words, that it is a genuine amalgamation or reconstruction, it was not during 1947–48, the practice of the Special Commissioners to make a direction in respect of the income for the final period.'

This statement leaves me in some doubt as to the policy of the Special Commissioners for earlier years in similar circumstances and I should be glad to see readers' observations on this point.

Yours faithfully,

LIQUIDATOR.

Capital Employed

SIR, – Your readers must be disappointed in the lack of response to Mr F. Simmonds' letter, in your issue of October 20th, under the above heading. While the point made by Mr W. F. Edwards (November 3rd issue) is of interest and very apposite in comparing the results of two companies, are not both of these gentlemen performing the 'ostrich act' as far as concerns the much more significant and vexed problem of the basis of valuation of fixed assets – historical *v.* replacement costs – or was Mr F. Simmonds 'trailing his coat'?

For whatever intelligent and constructive, as opposed to legal and statutory purpose, figures of capital employed are required, an acceptable solution to this problem of relative asset valuations must be found. In the search for such a solution we in industry must have the help, motivated by a genuine desire to be constructive, of our colleagues in practice. When the submission of evidence to the Royal Commission on Taxation is complete, I would suggest that this is quite the most important subject meriting consideration by the appropriate committees of our professional bodies.

I would, incidentally, criticize Mr Simmonds' implied acceptance of the use of the capital employed theory in computing the profit element in government contract prices. Does this not confuse the end with the means and is it not a further incentive to the inefficient use of this country's productive assets?

Yours faithfully,

P. D. IRONS,

Cowes, I.W. B.COM., A.C.A., F.C.W.A.

SIR, – Mr Simmonds raises an interesting and important accounting topic in his letter (issue of October 20th).

There are many comparisons for which the concept of 'capital employed' can be used. It all depends on the point of view from which the comparison is made and the object in making it.

With each different concept of 'capital employed' a corresponding definition of 'return' will have to be used.

Generally speaking, the concept 'capital employed' for inter-firm comparisons of the efficiency with which the whole of the assets are used, is that of the sum total of the assets without any deduction of liabilities etc. This will afford no measure of how

management organizes the supply of its funds. It merely gives an index of how well management uses its funds.

Comparison can be made on the basis of information in the published accounts of one's competitors and of the summary accounts of industries in the *Financial Times, The Economist*, or from other published figures.

The concept is extremely useful for calculation of profit targets or for estimating relative efficiencies, but is mostly impracticable for purposes of inter-departmental comparisons of efficiency within a firm.

Yours faithfully,
W. FRANK HARRIS, B.COM., A.S.A.A.
Romford, Essex.

Assets and Man-hours

SIR, – One small, belated comment on a statement by Mr H. Hodgson, A.C.A., A.C.W.A., in his article, 'Depreciation and the Future', in your issue of July 28th. He says (page 75, column 1):

> 'The tide of gradual inflation rolls on, however, and wages continue to increase, so that every long-lived asset will naturally increase correspondingly in real value (i.e. its worth in man-hours) throughout its life, subject to exhaustion in productive processes.'

Surely the worth of any asset in man-hours – those it will save – is on a plane impervious to monetary zoomings, no matter how far or fast?

Yours faithfully,
Leigh-on-Sea, Essex. C. W. HODGKINSON.

[Mr H. Hodgson writes: Thanks are due to your correspondent for epitomizing so neatly the argument I set out, more elaborately, to advance; also for pointing out an error. To have used the expression 'real value' instead of 'monetary value' in both the sentence quoted and the succeeding one, was a slip of the pen. Further, the words within the brackets should read: '(i.e. its worth in man-hours, currently expressed)'.]

Installation of Standard Costing System: Consultants' Fees

SIR, – With reference to Mr K. G. Platt's inquiry, in your issue dated November 3rd, concerning the disallowance of fees paid to a firm of accountants respecting the installation of a standard costing system, the Inspector's contention that the expenditure is of 'enduring benefit' to the company and, therefore, as a capital item not allowable, is not altogether acceptable.

It may become eligible for allowance in much the same way as professional charges for setting up a system of book-keeping or method of accounting. The sum could be quite fairly debited as a business expense in one lump if a small matter of just a few guineas or, if large and perhaps temporarily capitalized, written off to profit and loss over a period and allowed accordingly.

Furthermore, although these services may be regarded as 'enduring' in the sense that something of the kind will be necessary as long as the particular undertaking exists, time and experience call for alterations, sometimes at quite frequent intervals.

The system in point might well be reshaped, readjusted, substituted or even abandoned in the course of coping with the ever-changing character of trade and the daily uncertainties of enterprise, just as staff are tried out and either kept, dispensed with or replaced.

I submit that the cost of the installation, unless inordinately great, immediately becomes an administrative, revenue or operating expense and should be allowed.

Yours faithfully,
WILLIAM L. NEWTON,
A.COMM.A., A.C.T.C., A.F.T.COMM.
East Molesey, Surrey.

French for 'True and Fair View'

SIR, – The correspondence in your issue of October 27th regarding the French for 'true and fair view' has just come to my notice.

As an accountant resident in Paris for sixteen years, may I point out that literal translation of an accepted 'succession of words' from one language into another is often unsatisfactory, and is liable, even when correctly done, to give rise to phrases which, to the native ear, are unaccustomed and shout their foreign origin.

The only way is to have a knowledge of the customary (in this case French) equivalent.

From personal experience and knowledge, the following phrase is customary and, I suggest, would be perfectly satisfactory: *Certifié sincère et conforme aux écritures de la société.*

The word *sincère* as here used covers the whole ground of 'true and fair view'.

Yours faithfully,
Harrow, Middx. D. J. COLLINS.

SIR, – With the greatest respect to your earlier contributors on this point, I would suggest that they are seeking the unobtainable – there is surely no French equivalent of this phrase. My opinion seems to me to be ably supported by a report of the proceedings at the fifth annual congress of the Ordre des Experts Comptables, held last July, when one of the members, in the course of his address, observed that

> 'a reliable accountant will never be induced to certify the correctness of a balance sheet, because the idea of a true balance sheet seems to me to be as unreal as that of eternal love, or of final victory'.

Need I say more?

Yours faithfully,
FRANCOPHILE.

NORTHERN SOCIETY OF CHARTERED ACCOUNTANTS

DINNER AT NEWCASTLE UPON TYNE

The Northern Society of Chartered Accountants held a dinner at *The Royal Station Hotel*, Newcastle upon Tyne, on Friday, November 16th, 1951, with Mr R. P. Winter, M.C., T.D., F.C.A., President of the Society, in the chair. Members and guests numbering 200 were received by Mr Winter and by Mr Charles W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among the official guests were His Grace The Duke of Northumberland, Alderman W. McKeag, J.P., Lord Mayor of Newcastle upon Tyne, His Honour John Charlesworth, LL.D., Chancellor, County Palatine of Durham, Mr R. Mould Graham, O.B.E., M.C., T.D., J.P., F.C.A., The Sheriff, Newcastle upon Tyne, and Mr R. Barras, F.C.W.A., A.L.A.A. (*President, North-East Coast Branch, Institute of Cost and Works Accountants*); The Hon. Dennis G. Berry (*Managing Director, The Newcastle Chronicle and Journal Ltd*); Messrs T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); H. Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); G. D. F. Dillon, F.C.A. (*Chairman, London and District Society of Chartered Accountants*).

Messrs R. S. Dixon, A.C.I.S. (*President, North-East Coast Association of Chartered Secretaries*); Derek du Pré (*Editor, 'The Accountant'*); C. J. Fisher, C.B.E., D.S.O. (*Chairman, Newcastle Local Centre, Institute of Bankers*); W. B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*).

Messrs K. G. M. Harding, F.C.A. (*President, Liverpool Society of Chartered Accountants*); R. F. Howe (*Official Receiver in Bankruptcy*); T. Jewitt, F.S.A.A. (*President, Newcastle upon Tyne and District Society of Incorporated Accountants and Auditors*); A. S. MacIver, M.C. (*Secretary, The Institute of Chartered Accountants in England and Wales*); H. E. Matthews (*H.M. Principal Inspector of Taxes*) W. J. Milburn, F.C.A. (*Chairman, Cumberland Branch, Northern Society of Chartered Accountants*); G. Morris, F.A.C.C.A. (*President, Northern Counties District Society of the Association of Certified and Corporate Accountants*); E. Nixon (*President, Newcastle upon Tyne Incorporated Law Society*); Colonel B. Peatfield, M.C., T.D. (*Clerk to the Commissioners of Inland Revenue*).

Messrs W. E. Ringquist, F.C.A. (*Chairman, South Durham and North Yorkshire Branch, Leeds, Bradford and District Society of Chartered Accountants*); G. B. Robins, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); C. Stewart (*H.M. Principal Inspector of Taxes*); F. Wilcock, F.I.M.T.A., A.S.A.A. (*City Treasurer, Newcastle upon Tyne*).

The Torch of Truth

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by His Grace The Duke of Northumberland, who in the course of his speech said:

'You, in your profession, hold in your responsible hands in matters of Government, public and private finance, the torch of truth. . . .

'In the seventy-one years since your original Charter,' he continued, 'an important development has taken place. Members of the Institute have, to a great extent, taken whole-time appointments in commerce and industry and also in government departments after having qualified, instead of practising solely as public accountants.

'You are in a position, as a body, to take a large and important part in formulating both industrial and national financial policy.'

In the course of his reply to the toast, Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, said:

'Many chartered accountants have, I fear, quite a wrong impression of the work undertaken by the members of the Council. They may or they may not read that well-informed journal *The Accountant* but if they do read it they will find, once a month, a report of the proceedings of the Council.

'Now this report may not be very exciting reading, but from time to time it does include important pronouncements which the Council desires to be brought to the attention of the members and if for no other reason, it should be read by all. It does not, however, give any real indication of the work done by the Council. By far the greater part of the time of its members is occupied on the work of the committees and sub-committees and in these days of problems of the greatest complexity, the sittings of many of those committees are frequently protracted. . .

The Institute's Recommendations

'As one example, you are all familiar with the series of recommendations on the best accounting practice which has been issued from time to time and which I venture to believe has proved to be of the greatest possible value to our members.' (Hear, hear.)

Remarking approvingly on the wide publicity the recommendations had received, Mr Boyce said that others were in course of preparation and continued

'Needless to say, with constantly changing conditions, the Council may wish to revise some of the recommendations issued during the last few years, and it will not hesitate to do so if it is satisfied that the trend of the financial and economic structure of world affairs has rendered some revision necessary.'

On the subject of those members who have adopted a commercial or industrial career, Mr Boyce said:

'Industry and commerce nowadays offer many attractions to the qualified accountant and it is not surprising that many succumb to the inducements held out in that sphere. I hope that those who adopt a commercial career will not forget that it was not merely their ability to pass the examinations of the Institute which enabled them to acquire their qualifications, but above all they are indebted to the careful practical training they received in a practising accountant's office during their period of articles, which has fitted them for the posts they now occupy.'

Proposing the toast of 'The City and County of Newcastle upon Tyne', His Honour John Charlesworth, LL.D., Chancellor, County Palatine of Durham, referred to the city's long history and varied activities.

In his response, Alderman W. McKeag, J.P., the Lord Mayor, said:

'We have a great historical background, a great record of achievement both in peace and in war – a great river, a great aggregation of industry and commerce and above all, a great people . . . a pioneer, courageous and fearless breed of man. I am anxious that we should continue to breed this same type of men.' (Hear, hear.)

Mr T. A. Lacy Thompson, D.S.O., M.C., A.C.A., proposed the concluding toast of 'Our Guests', and Mr J. B. Mennie, M.C., F.C.A. responded.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on November 7th, 1951, who completed their Fellowship or Membership before November 20th, 1951.

Associates elected Fellows

Armitage, Alan Ernest, M.A.; 1929, A.C.A.; (*Jones, Crewdson & Youatt), 7 Norfolk Street, Manchester, 2.

Battye, Harold; 1932, A.C.A.; (*Jarvis Barber & Sons); Sheffield Telegraph Building, High Street, Sheffield, 1.

Chaplin, John Tyson; 1926, A.C.A.; (Allen Edwards & Co) and (*Chaplin, Hall & Co), 5 Lower Temple Street, Birmingham, 2, and at Coventry.

Corbett, Patrick Geoffrey, T.D.; 1946, A.C.A.; (Singleton, Fabian & Co), 65 London Wall, London, EC2, and 30 Southampton Buildings, Chancery Lane, London, WC2.

Darrah, Ronald Esling; 1932, A.C.A.; c/o Martins Bank Ltd, The Square, St Annes-on-Sea, Lytham St Annes.

Densem, Wilfrid Guy; 1928, A.C.A.; (*Deloitte, Plender, Griffiths & Co), 5 London Wall Buildings, Finsbury Circus, London, EC2, (for other towns see *Deloitte, Plender, Gill & Johnson, *Deloitte, Plender, Griffiths & Co and *Deloitte, Plender, Griffiths, Annan & Co).

Evason, John Arthur Cole; 1937, A.C.A.; (*Asbury, Riddell & Co), 7 The Square, Shrewsbury, and at Ellesmere, Ludlow and Welshpool.

Eynon, Philip Louis; 1945, A.C.A.; (*Singleton, Fabian & Co), 30 Southampton Buildings, Chancery Lane, London, WC2, and 65 London Wall, London, EC2.

Fawn, Ernest James; 1937, A.C.A.; St Helen's Chambers, Davygate, York.

Fletcher, Alexander, M.A.; 1940, A.C.A.; (Fletcher, Fletcher & Layton), Crown Chambers, Salisbury, Wiltshire.

Garnett, Kenneth Clayton; 1946, A.C.A.; (*Garnett, Depledge & Lewis), 286 Glossop Road, Sheffield, 10.

Goddard, Reginald Eric; 1938, A.C.A.; (Graves, Goddard & Horton-Stephens), 7 Pavilion Parade, Brighton, 1, and at Crawley.

Hayward, Cecil John; 1938, A.C.A.; (*Metcalfe Collier, Hayward & Blake) and (C. J. Hayward & Co), 199 Piccadilly, London, W1, and at Birmingham; also at Reading, (C. J. Hayward & Co).

Horton-Stephens, Alan Goodwin James; 1940, A.C.A.; (Graves, Goddard & Horton-Stephens), 7 Pavilion Parade, Brighton, 1, and at Crawley.

Joicey-Cecil, Edward Wilfrid George; 1935, A.C.A.; (*Whinney, Smith & Whinney), 4B Frederick's Place, Old Jewry, London, EC2, (for other towns see *Whinney, Murray & Co, *Whinney, Murray, Baguley & Co and *Whinney, Smith & Whinney).

Kirkman, Sydney Melville; 1932, A.C.A.; (Brough, Kirkman & Co), 2 Fishergate, Ripon, and at Harrogate and Masham.

Mahany, Eric Fortescue; 1938, A.C.A.; Market Arcade, Fore Street, Kingsbridge, Devon.

Matheson, William Auguste Torquil; 1938, A.C.A.; (*Finnie, Ross, Welch & Co), 108A Cannon Street, London, EC4, and at Glasgow.

Morton, Thomas Alfred; 1937, A.C.A.; (*Singleton, Fabian & Co), 65 London Wall, London, EC2, and 30 Southampton Buildings, Chancery Lane, London, WC2.

Rowland, Frederick Ernest; 1941, A.C.A.; (*Ferguson, Gilchrist & Co), 27 Old Broad Street, London, EC2.

Shapland, William Arthur; 1946, A.C.A.; (*Allan, Charlesworth & Co), 17 St Helen's Place, Bishopsgate, London, EC3, and at Cambridge and Rangoon; also at Liverpool, (*Allan, Charlesworth & Co) and (*Allan, Charlesworth, Howorth & Co).

Ward, John Raymond; 1944, A.C.A.; 41 New Bond Street, London, W1.

(Not in England or Wales)

White, Gordon; 1935, A.C.A.; (*Barton, Mayhew & Co), Rua Ivens, 9-3° (Apartado 252), Lisbon, Portugal, and at Oporto.

Admitted as Associates

(Not in Practice)

Mason, Raymond Frank William; with Jacob, Cavenagh & Skeet, 41 Water Street, Birmingham, 3.

Moss, Herbert Samuel; with Howard, Howes & Co, Norfolk House, Norfolk Street, London, WC2.

(Not in England or Wales)

Laslett, Geoffrey Mayes; with *Hill, Vellacott & Bailey, Bank Chambers, 39 Arthur Street, Belfast.

Former Member readmitted to Membership

Maynard, John Arthur; 5 Churchill Road, Umtali, Southern Rhodesia.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

Personal

MESSRS HARTLEY KEEN & CO, Chartered Accountants, of 77 & 79 High Street, Southend-on-Sea, announce that Mr JOHN DENNINGTON, A.C.A., who has been associated with the firm for many years has been admitted into partnership as from November 1st, 1951. The name of the firm remains unchanged.

MR H. R. HAYES, F.C.A., of 30 St Ann Street, Manchester, 2, announces that he has taken into partnership Mr J. B. DIGGLE, A.C.A., who has been associated with the practice for several years. The practice will be carried on from the above address under the title of WHARTON POLLITT & CHESWORTH, incorporating EDMUND G. CHESWORTH & SON, Chartered Accountants, late of 37 Peter Street, Manchester, 2.

MESSRS GEORGE ARTHUR & CO announce that, as from November 5th, their St Albans offices have been removed to 4 Broadway Chambers, St Peter's Street, St Albans. Telephone: St Albans 5464.

MESSRS A. L. PRICE & CO, Chartered Accountants, of 7 Pall Mall, Manchester, 2, announce the retirement, for health and personal reasons, on September 30th, 1951, of the principal, Mr A. LINLEY PRICE, F.C.A. The practice has been purchased by Mr HAROLD BIRCH, A.C.A., and Mr PETER E. LITTLEMORE, A.C.A., who have been associated with the firm for some years, and who will practise from the same address under the style of BIRCH, LITTLEMORE & CO.

MESSRS VEITCH & CO, Chartered Accountants, of 4 Dove Court, Old Jewry, EC2, announce with regret that their senior partner, Mr HORACE JOHNSTON VEITCH, C.A., died on Monday, November 12th, after a short illness. The practice will be carried on by the remaining partners, Mr D. E. F. GREEN, M.B.E., F.C.A., and Mr A. E. WHITCOMB, F.C.A.

THE executrix of the late Mr JAMES GRAY, C.A., announces that the practice carried on by the late Mr GRAY from Swinton House, 324 Gray's Inn Road, London, WC1, will be continued by Mr PETER J. WHEELER, D.F.C, A.C.A., from the same address, under the style of P. J. WHEELER, Chartered Accountant.

MESSRS R. M. BLAIKIE & Co, Accountants and Auditors, of High Wycombe and Marlow, announce that, as from October 23rd, 1951, Mr A. E. GINGER retired from the partnership. The partnership will be carried on as heretofore by the remaining partners, Mr E. WOODLEY, Mr A. T. GOODCHILD, Mr K. J. LUNNON and Mr W. C. PEATEY.

Professional Note

Messrs Walker Brothers (London) Ltd, announce that Mr Alan A. Wylie, A.C.A., has been appointed a director of the company as from November 6th, 1951.

Obituary

HORACE JOHNSTON VEITCH, C.A.

It is with regret that we record the death, in his seventy-third year, of Mr Horace Johnston Veitch, C.A., senior partner in the firm of Veitch & Co, Chartered Accountants, of 4 Dove Court, Old Jewry, London, EC2.

Mr Veitch was articled in Glasgow and qualified as a member of the Institute of Accountants and Actuaries in Glasgow in 1905. He then came to London and shortly afterwards commenced his own practice at 9 Coleman Street, London, EC2.

Mr Veitch made a special study of fraudulent trading cases and was a principal witness for the Crown in many prosecutions dealt with at the Central Criminal Court.

Revenue Appointment

The Board of Inland Revenue have appointed Mr A. W. Buckley to be Deputy Controller of Stamps in succession to Mr E. J. Cleall.

Trade Union Statistics

Details of twenty-one industrial groups are presented in the 1940–50 statistical summary[1] of registered trade unions, prepared by the Registry of Friendly Societies. The summary, in the same form as that published last year for the 1939–49 period, has been compiled from the annual returns of trade unions registered under the Trade Union Acts of 1871–1940. The membership of these unions represents about 90 per cent of the whole trade union movement in Britain – there were 7,947,535 members of 416 registered trade unions at the end of 1950.

The total funds of unions on the register stood at £62,150,000 at the close of 1950, against £58,119,000 in 1949. The amount paid out in respect of dispute benefit in 1950, totalled £244,000, against £74,000 the year before.

[1] 'Registered Trade Unions: Statistical Summary 1940–50', H.M.S.O. 4*d* net.

In Parliament

POST OFFICE: COMMERCIAL AND CASH ACCOUNTS

Mr DOUGLAS HOUGHTON asked the Assistant Postmaster-General what steps are under consideration for more closely relating the commercial and cash accounts of the Post Office; and if he will make a statement.

THE ASSISTANT POSTMASTER-GENERAL (Mr David Gammans): A statement showing how the commercial accounts and cash accounts are reconciled is included in the commercial accounts. In addition to this, a forecast of the commercial accounts and a reconciliation statement is included in the published estimates. I do not consider that any further steps are necessary.

Hansard, Nov. 14th, 1951, Oral Answers, Col. 962–3.

CO-OPERATIVE SOCIETIES: SHAREHOLDING LIMITATION

Mr J. HYND asked the Chancellor of the Exchequer whether his attention has been drawn to the disabilities suffered by co-operative societies due to the existing restrictions on the total individual shareholding of members; and whether he will introduce early legislation to bring the present limitation more into line with current values.

Mr BOYD-CARPENTER: The important issues raised in this question are now being carefully considered, but I am afraid that I am not today in a position to make a statement.

Hansard, Nov. 15th, 1951. Written Answers, Col. 57.

CUSTOMS DUTIES: STATISTICS

Sir H. WILLIAMS asked the Secretary to the Treasury the total value, c.i.f., of the imports of tobacco, wines, spirits and petroleum products on which customs duties were levied; and the total of such customs duties for twelve months ended March 31st, 1951.

Mr BOYD-CARPENTER: The figures for values c.i.f. and customs duty payments in respect of tobacco, wines, spirits and petroleum products for the year ended March 31st, 1951, are as follows:

Commodity	Total value c.i.f. of imports	Total duty paid on clearances for home consumption[1]
	£	£
Tobacco	62,584,708	604,259,549
Wines	10,504,773	18,093,636
Spirits	8,423,635	38,735,410
Hydrocarbon oils:		
Crude	83,905,929	138,872,008
Refined	125,471,517	

[1] The duty figures relate to clearances for home consumption during the year in question, and not to goods actually imported during that year. For the most part, these goods are not duty paid at time of importation but subsequently when cleared for home consumption. As regards hydrocarbon oils there is the further point that the duty on refined oils (excluding most of the heavy oils) is chargeable on such oils produced in this country from imported crude.

Hansard, Nov. 15th, 1951. Written Answers, Col. 58.

PROFITS: TAXATION

Mr SWINGLER asked the Chancellor of the Exchequer in what ways he proposes to recast the existing system of taxation on industrial and commercial profits.

Mr BOYD-CARPENTER: These are matters which will come under review in connexion with the Budget, and I must ask the hon. member to await my right hon. friend's Budget statement.

Hansard, Nov. 15th, 1951. Written Answers, Col. 57.

London and District Society of Chartered Accountants

A meeting of the London and District Society of Chartered Accountants will be held on Wednesday, next, November 28th, at 6 p.m., in the Hall of the Chartered Insurance Institute, Aldermanbury, London, EC2, when Mr J. M. Sandford Smith, A.C.A., F.I.I.A., will deliver an address on 'Accounting by electronics: some new responsibilities of auditors and accountants'.

Institute of Actuaries' Year Book, 1951-52

The presentation of the information contained in the 1951-52 Year Book of The Institute of Actuaries has been altered from that of previous years in order to increase its usefulness as a book of reference. In this new, recently published, edition, the contents have been divided into six main numbered sections under the headings of: I. 'General Information', where the early history of the profession leading up to the formation of the Institute in 1848 is related; II. 'The Examinations', detailing examination regulations, the syllabus, and reproducing recent papers; III. 'Proceedings', reports of the ordinary general meetings held during 1950-51; IV. 'Publications'; V. 'Kindred Societies', where addresses of societies both at home and abroad are listed; and VI. 'List of Members'.

An analysis of the membership of the Institute in the years 1895, 1939 and 1951 is shown below:

Class of Member	*At July 31st* 1895	1939	1951
Fellow	177	535	755
Associate	223	362	315
Student	370	870	873
Probationer[1]	—	136	—
Total	770	1,903	1,943

[1] Admissions to the class of probationer, which was established in 1898, ceased on May 31st, 1937.

Sheffield and District Chartered Accountants Students' Society

The autumn lecture programme of the Sheffield and District Chartered Accountants Students' Society, concludes on December 19th with a Christmas party at *The Brincliffe Oaks Hotel*, Nether Edge.

The first of the talks in the spring programme is on January 10th, when Mr A. E. Langton, LL.B. (LOND.), F.C.A., F.S.A.A., will speak on 'Recent developments in the law and practice of auditing.' Some other lectures in the series are: 'Britain's financial position', by Mr R. F. Harrod, of Oxford University, on January 14th; 'Branch accounts', by Mr R. Glynne Williams, F.C.A., F.T.I.I., on February 22nd, and 'Inland Revenue practice and the accountant', by Mr H. A. R. J. Wilson, F.C.A., F.S.A.A., on March 12th.

The joint annual dinner with the Sheffield and District Society of Chartered Accountants will be held at *The Grand Hotel*, Sheffield, on March 14th.

The Institute of Taxation

TWENTY-FIRST ANNIVERSARY DINNER

A dinner to celebrate the twenty-first anniversary of the foundation of the Institute of Taxation will be held on December 4th, 1951, at the *Savoy Hotel*, London, WC2.

Hockey

CHARTERED ACCOUNTANTS *v.* LAW SOCIETY

The annual hockey match between the Chartered Accountants and the Law Society was played on November 14th at the Richmond Club Ground, Old Deer Park, and the score – a draw 2-2 – was, without doubt, a true and fair result of the keen play.

The Institute achieved an early understanding between the defence and forward lines, and for the major part of the first half kept the ball at the Law Society end. After fifteen minutes' play, D. Knight scored for the Institute, and was closely followed by T. F. Hutchinson with a second goal.

In the second half, the Law Society took the offensive, their forward line pressing the Institute defences held by P. C. Kay and C. V. Wong, and two excellent goals were shot by S. Morgan, the Law Society centre-forward. The Institute retaliated strongly and very nearly scored from two opportunities in the later stages of the game.

The Institute was represented by: R. B. A. Howle (Beckenham), P. C. Kay (Hampstead), C. V. Wong (Beckenham), P. W. McKelvie (Old Dunstablians), M. R. T. Lowth (Southgate), P. Boobbyer (Wimbledon), R. E. Wray (Colchester), T. F. Hutchinson (Tulse Hill), G. G. A. Saulez (Hawks), D. Knight

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The results of the Chartered Accountants' hockey matches with the Law Society to date are, two games won by the Law Society, and one game drawn.

Recent Publications

The Mitigation of the Tax Penalty on Fluctuating or Irregular Incomes, by John Willis, B.A. 88 pp. 9 × 6. $1. Canadian Tax Foundation, Toronto.

The Value of Economics in Commercial and Industrial Education, by Michael Clapham, M.A. 14 pp. 8½ × 5½, paper cover. 6*d* net. Department of Economics and Business Administration, City of Birmingham College of Commerce, in collaboration with the Economics Association (Midland Branch), Birmingham.

Woolley's Handbook on the Death Duties, Supplement, 1951, to the Seventh Edition, by John Munkman. 16 pp. 8½ × 5½. 2*s* net. The Solicitors' Law Stationery Society Ltd, London.

An Outline of the Law of Trusts and Trustees, by H. A. R. J. Wilson, F.C.A., F.S.A.A., and C. N. Beattie, LL.B., Barrister-at-Law. iv + 59 pp. 10 × 7½. 5*s* net. H.F.L. (Publishers) Ltd, London.

Handbook of Tax Accounting Methods, edited by J. K. Lasser, C.P.A. xii + 897 pp. 9½ × 6½. $12 net, D. Van Nostrand Co, Inc, New York. £4 10*s*. net, Macmillan & Co Ltd, London.

Report of Proceedings of the Fourth Annual Tax Conference, convened by the Canadian Tax Foundation, in Toronto, December 1950. 83 pp. 9 × 6, paper cover. Canadian Tax Foundation, Toronto.

Second Supplement to Spicer & Pegler's Income Tax including Profits Tax, Nineteenth Edition, by H. A. R. J. Wilson, F.C.A., F.S.A.A. 39 pp. 8½×5½. 2*s* 6*d* net. H. F. L. (Publishers) Ltd, London.

Supplement to Wilson & Heaton on the Income Tax Act, 1945, by H. A. R. J. Wilson, F.C.A., F.S.A.A., and James S. Heaton, F.S.A.A. 93 pp. 8½×5½. 5*s* net. H. F. L. (Publishers) Ltd, London.

Second Supplement to Wilson & Heaton on the Income Tax Act, 1945, by H. A. R. J. Wilson, F.C.A., F.S.A.A., and James S. Heaton, F.S.A.A. 11 pp. 8½×5½. Free. H. F. L. (Publishers) Ltd, London.

Lancashire County Council Forecast of Capital Expenditure, 1951–52 and 1952–53. 142 pp. 8½×5½. County Hall, Preston.

Spicer & Pegler's Practical Auditing. Tenth Edition by Walter W. Bigg, F.C.A., F.S.A.A. xxvii+659 pp. 8½×5½. 27*s* 6*d* net, 28*s* 6*d* post free. H.F.L. (Publishers) Ltd, London, and Sir Isaac Pitman & Sons Ltd, London.

Tax Cases, Reported Under the Direction of the Board of Inland Revenue. Vol XXIX, Part VIII. 9½×6. 1*s* net. H.M.S.O., London.

Our Contemporaries

The Accounting Review. (Menasha, Wisconsin.) (October.) 'A Critical Analysis of Accounting Concepts of Income', by Norton M. Bedford, Assistant Professor, Washington University.

The Journal of Accountancy. (New York.) (October.) 'How Internal Auditing can Assist Management in Maintaining Better Controls', by Victor Z. Brink, C.P.A., Assistant Controller, Ford Motor Company.

Other Publications Received

The Royal Army Pay Corps Journal. (Autumn, 1951.)

The Accountants Digest. (Burlington, Vermont.) (September.)

Tax Bulletin. (Toronto.) (September–October.)

The Illinois Certified Public Accountant. (Chicago, Illinois.) (September.)

The Canadian Chartered Accountant Tax Review. (Toronto.) (September.)

SEVENTY-FIVE YEARS AGO

From *The Accountant* of November 25th, 1876

From a 'Note in Passing'

Bankruptcy

The bankruptcy of Henry Barnett, late a dealer in works of art, furnishes an example of the dangers attending the use of that trade device known as 'sale or return'. Certain articles of furniture valued at about £60 were in the possession of the bankrupt at the time of his failure; and these the trustee took possession of as part of the assets. It subsequently appeared, however, that the articles in question had only been sent to the bankrupt on sale or return; and that the sender entertained very strong opinions as to his continued ownership of the same. A written agreement was handed in, showing the grounds on which the debtor held the property, and the custom of the trade was further alleged in support of the present application that the goods should be at once delivered up. On the other side it was contended that, as no affidavit had been made affirming the custom of the trade to be as described, the goods were in the order and disposition of the debtor, and so passed to the trustee. The Registrar admitted that in strictness the omission referred to ought to have been supplied; but as he had judicial knowledge that the custom of 'sale or return' really existed, he held that the goods so deposited could not be claimed by the trustee, but must be given up to the owner.

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THE ROYAL COMMISSION

THE Royal Commission on the Taxation of Profits and Income has suffered an unexpected blow in the loss of its able and popular chairman, LORD COHEN, who has relinquished the chairmanship to take up his duties as a Lord of Appeal in Ordinary. The new chairman will have an immense task in reading through the evidence which has already been submitted and making himself acquainted with the complex problems involved. The proceedings of the Commission are necessarily somewhat protracted and this new delay puts the probable date of its report still farther into the future. This is all the more regrettable because witness after witness has stressed the urgency of the problems with which industry and indeed the country's economy as a whole are now faced.

At the Commission's public meetings held on November 22nd and 23rd, when representatives of the British Bankers' Association, and MR NUTCOMBE HUME, C.B.E., M.C., Chairman of the Charterhouse Group, gave evidence, the proposed new excess profits tax, which featured so prominently in the Commission's last series of public meetings, was not even mentioned by any of its members. A possible capital gains tax, also prominently discussed at the previous meetings, was mentioned only once, by the acting chairman, MR J. MILLARD TUCKER, K.C., and no other member was disposed to ask questions about it. It may be that the vigorous and forthright replies of previous witnesses have practically killed the idea. As to the excess profits tax, since its details are still secret and will not be revealed until the Budget, there seems little point in discussing it now. No doubt the Commission will still be sitting when excess profits tax is part of the law of the land.

The fact remains however that without such alternative sources of revenue, income and profits taxation can only be altered by a redistribution of the existing burden. Industry's case for relief has been put very forcefully but there will be equally strong opposition to any concessions to it if these increase the burdens on individual incomes, despite the argument that it is upon the maintenance of our industrial capacity that the prosperity of everyone ultimately depends. Some members of the Commission appear to be little impressed with the argument that it is taxation which is eating into our productive potential, or that relief from inflation should be given to entrepreneurs but not to others.

Full consideration was given at the last meetings to the old controversy whether allowances for capital asset depreciation should be given on historical cost or on current replacement cost. SIR WILLIAM COATES, for the British Bankers' Association, made the interesting point that when wear and tear allowances were first introduced, in 1878, the wording used in the Statute was

such as to admit of a construction which, he said, did not tie the allowance to historical cost. Of course, in those days of stable prices, there was little difference between historical and replacement costs, but the practice of taking historical cost became firmly established. Whatever the Legislature intended in 1878, its intention in, subsequent Acts has been to take historical cost and the Millard Tucker report endorsed this as a general principle, in spite of the many arguments against it. Since the present Government is presumably not tied to a general suspension of initial allowances as from next April, it will be interesting to see what use it makes of the suggestion in the report that there should be an increase in initial allowances in certain industries.

A case study on the effects of inflation on industrial capital resources has been published recently by the Federation of British Industries. Although not expressly addressed to the Commission, it does in fact to some extent answer questions posed by the Commission at previous meetings.

The study is based on an examination of the published accounts of some eighty manufacturing companies in the years 1938 to 1949, combined with answers to a questionnaire to these companies and published statistical data relating to price movements. The companies in the sample are large, having assets of more than £1,000 million and employing nearly 700,000 people.

The object of the study was to throw light on the following three main problems:

(*a*) How did the 1949 capital assets of the companies concerned compare in real terms with those of 1938?

(*b*) How had the companies financed the increased *money value* of capital needed to run the business in 1949 compared with 1938?

(*c*) In the light of (*a*) and (*b*), and of such other relevant factors as the volume of production in 1938 and 1949, what conclusions may be drawn as to the adequacy of capital resources in 1949 and in the future, and of the level of profits at present earned in industry?

As regards (*a*), which is of particular interest to the Commission in relation to arguments about the running down of productive capacity which is alleged already to have taken place, two methods of approach were used. In the first, it was assumed that the book value of assets in 1938 equalled their then real value – an assumption in itself a little open to question. This figure was then multiplied by 2½ to give its approximate 1949 equivalent, which works out at £315 million. Then the book values of 1949 assets were adjusted by reference to dates of acquisition and subsequent price movements, to give a total of £304 million, thus showing an apparent decrease of 3½ per cent in real assets. The alternative approach, based on the companies' own estimates of the replacement values of their 1949 assets, shows an increase of 13 per cent. In current assets there is an admitted physical increase but here again it is remarkably small. In spite of these small increases the effect of inflation was to require an additional sum of over £2½ million to finance fixed and current assets. Despite the reduction in the proportion of profits distributed, the profits retained in the businesses were not nearly sufficient to meet this increased need, and resort was made to a considerable extent to borrowing and the issue of fresh share capital.

Whether or not the capital resources of the eighty companies were 'adequate' in 1949, judged in comparison with 1938, depends largely on the relative volumes of production, again in real terms. The number of workers in the companies increased by about one-third and it is estimated that production increased in like ratio. The fixed capital per worker, however, declined from £628 (at 1949 prices) to £449.

The obvious weakness in some of the figures is perhaps largely compensated for by the fact that they cover a period which we have already left nearly two years behind and which does not take into account devaluation in 1949 and subsequent rearmament. The study points out that the figures it throws up do stress the need for every company to place the maximum practical amounts to reserve. It is claimed that by so doing not only will each company assist in bridging the gap between tax allowances and real replacement costs, but will also strengthen the case of industry generally for a reshaping of the country's taxation policy.

It seems safe to assume that the Commission will wish to question the Federation of British Industries further on the figures and deductions in the study.

ROAD HAULIERS' COMPENSATION

THE ascertainment of compensation payable to road hauliers whose businesses are nationalized, continues to give rise to disputes between them and the Road Haulage Executive. The question has already been the subject of two leading articles in this journal – on December 2nd, 1950, and June 2nd, 1951. In the first we considered the compensation provisions of the Transport Act, 1947, and the decision in *Arthur J. Maggs Ltd v. Road Haulage Executive* (Road Haulage Cases No 3 (England and Wales) 1950, page 15), which established that profits tax should not be deducted in arriving at profits for the purpose of calculating the cessation payment. This payment was subsequently held to be in effect a payment for goodwill. In the second article we discussed the decision in *Road Haulage Executive v. W. C. and H. Yeoman* (Road Haulage Cases No. 4 (England and Wales) 1951, page 33) and the apparent reluctance of the Road Haulage Executive to apply to other undertakings the decision in the *Maggs* case.

Deducting Notional Remuneration

In the *Yeoman* case the Transport Arbitration Tribunal rejected the contention of the Road Haulage Executive that in the case of individual hauliers, and partnerships, the admitted profits should be reduced for the purpose of the cessation payment by some deduction for the notional remuneration of proprietors actively engaged in the business. The Road Haulage Executive used the argument that if their contention was rejected, there would ensue unfairness to undertakings carried on by limited companies where the profit was in effect distributed in the form of directors' remuneration.

Excessive Directors' Remuneration

This precise point has now been answered in *Donnelly Brothers (Transport) Ltd v. Road Haulage Executive*, judgment in which was delivered by the Transport Arbitration Tribunal on November 22nd last. The Tribunal, after hearing evidence about the age, experience, duties and remuneration of each individual director, accepted the company's contention that some of the remuneration was excessive. The excess was accordingly added back to profit, thus increasing the cessation payment. It follows then that in one sense the haulier gets the best of both worlds; if the business has been carried on by individuals nothing can be deducted for the notional remuneration, if by companies, an excessive debit for directors' remuneration is not binding for the purpose of the cessation payment.

Wear and Tear and Provision for Replacement

In the same case the Tribunal also settled a point arising out of the interpretation of Paragraph 3 of the Ninth Schedule to the Transport Act, 1947 (dealing with the cessation payment), which reads as follows:

> '3. In ascertaining the said profits or losses, such deductions shall be made in respect of wear and tear and provision for replacement of property held for the purposes of the undertaking as may be just.'

The wording of this paragraph, incidentally, will be of interest to all those concerned with the deliberations of the Royal Commission on the Taxation of Profits and Income on the question of whether depreciation allowances should or should not take replacement cost into account.

The company contended that no adjustment should be made to the profits shown by its audited accounts in which provision had been made for depreciation at 20 per cent on the reducing balance method, on the cost of the company's vehicles. On the other hand, the Road Haulage Executive claimed that this provision should be replaced by a sum also calculated at 20 per cent on the reducing balance but based, not on historical cost, but on the replacement cost of each vehicle at the date of transfer to the Road Haulage Executive, such substituted provision to commence from the date the vehicle was first licensed, irrespective of the date of its acquisition by the company. This method is based on the one adopted in paragraphs (*a*) and (*b*) of Section 47 (1) of the Act, for the purpose of ascertaining the prima facie value of goods vehicles vesting in the British Transport Commission.

The Tribunal considered that depreciation based solely on historical cost could not be said to be a just 'provision for replacement' within the meaning of paragraph 3 quoted above, and that the method advocated by the Road Haulage Executive served the ends of justice.

BALANCE SHEETS IN THE FUTURE

by ANGUS MACBEATH, C.A., A.C.W.A.

The author writes: The sun may continue to rise in the east and to set in the west; the 'Mona Lisa' may continue to greet her admirers in the Louvre with her enigmatic look; the waters of Niagara may continue to thunder unceasingly in cascading towards the sea, but other departments in our daily life are constantly changing. Stage-coach to train to aeroplane; coracle to sailing vessel to steamship; and so on. This article discusses how the balance sheet may fare in the changing conditions of the times.

Introduction

THE quality of a workman is often revealed by the quality of his tools: the good workman keeps his tools up to date and in step with current developments. It is perhaps unusual to think of tools in relation to the professions but is it not true to say that the balance sheet is one of the main tools used by the accountancy profession?

Here is a tool which has been in use for a very long time and which has succeeded so far in riding the storms of the years with relatively little change.

The pressure of events may now be reaching such a pitch that some rearrangement in the balance sheet in the future may be inevitable. The main event which suggests this change is the violent fluctuation in the values of currencies: in sterling no less than in any other currency. A guide to the change in sterling is to be found in the amount of the fiduciary issue which was £260 million in 1938 and has risen to £1,400 million today, an increase of more than 500 per cent.

We thus find that the balance sheet today is composed of items expressed in sterling values which bear little relation to each other because they were established at times between which the purchasing power of sterling varied considerably.

The Present Day

It is generally recognized as unlikely that the currencies will ever return to the purchasing power per unit which they have held in bygone years. There is really only one type of constant measurement of value in our civilization, an example of which is the quantity of time which a workman requires to work in order to obtain a loaf of bread of constant weight and analysis.

That, of course, is to return to elementary economics and in our balance sheet we must make do with the currencies of fluctuating purchasing power, since it is the role of accountancy to express itself in figures denoting currencies.

Though we must keep on using the currencies which we have, must we continue to use them in such a way that they become blunt instruments, or can we so adapt our methods of accounting that the currencies retain their sharpness though their purchasing power varies?

Use of Balance Sheet

The balance sheet today has a varied use. To the public limited company which must publish one, it is the financial shop window into which one may gaze and guess at what may be found in the shop beyond: the window where the financial position is laid open for inspection, to impress competitors, yet keep them as much as possible in ignorance of the working details of the company's business; to satisfy shareholders with the stewardship of the directors; to reassure creditors by displaying adequate stability; to convince the stock exchanges that the capital is of good value. The balance sheet may be of little use to the company in the conduct of internal affairs, since more up-to-date data will constantly be required and be available; the main uses of the published accounts will be as an issue to shareholders, as a basis for justifying the payment of a dividend, and to supply the profits figure on which the company is assessed to income-taxes.

To the small private limited company and other businesses, however, the balance sheet may be the only statement of the financial position which is prepared and it, and the accompanying profit and loss account, may be very necessary documents.

Contents of Balance Sheet

If, then, it be agreed that the balance sheet is indeed a main tool of the accountancy profession, let us look at this tool in the light of the circumstances of the day. It will usually be found that the balance sheet legally required of the limited company tends to give its form to the balance sheet of other undertakings, with minor amendments. We can therefore think of the balance sheet mainly in terms of that used by the limited company.

The Companies Act, 1948, has greatly helped towards the uniformity of the accounts of limited companies by laying down a code of rules which must be followed in preparing the accounts, but there is little if anything which is fundamentally new in the basic principles.

In examining the contents of the balance sheet there are aspects other than of pure accountancy to consider. There is, for example, the social aspect: a balance sheet should show a true position or wrong conclusions may be drawn. Large 'paper' profits are apt to mislead those who are uninitiated in accounting and the position may be merely confused by professional explanation. Taxation policy is a second consideration of outstanding importance today due to the suggestion that industrial capital is being drained away by taxation owing very largely to the present methods of preparing annual accounts.

Criticisms of the balance sheet are constantly being made and are becoming more pronounced day by day and we frequently hear that the profit and loss account is the more important document, though the criticisms of the balance sheet have their effect on the profit and loss account also. It may be reasonable to suppose, however, that if the balance sheet is correct there must be a corresponding tendency to correctness in the profit and loss account as well; if we are correct at the beginning and at the end we should, willy-nilly, be correct in the middle as well.

It would indeed be unfortunate if the balance sheet were to lose its position because of neglect. Let us look at the normal balance sheet in detail and consider the possible alterations in the build-up of the contents which may reasonably be expected in the future.

Set-out of Balance Sheet

First a word on the set-out of the balance sheet. We are passing through a period which is producing a wonderland of forms. It is becoming a rarity to find two published balance sheets whose forms are alike in every respect. Some are in traditional debit and credit style, some are vertical, some have separate legal and consolidated balance sheets, some show the two balance sheets in adjacent columns of one document, some have two profit and loss accounts – one for the company itself, one for the group – and others publish a group profit and loss account only.

Yet all the accounts of limited companies must be drawn up in conformity with the requirements of the Companies Act, 1948, and probably each one has completely identical meat on its bones, yet includes some item upon which each accountant has a personal reservation of opinion, whether it be in the calculation of depreciation; in provision for replacement; in showing taxation as a charge or as an appropriation; in stating fixed assets at cost or at a valuation, and the trade investments at cost; in valuing stock at cost or market value whichever is the lower; in treating future taxation as a reserve, or as a deferred liability, or as something on its own.

The writer has great difficulty in feeling that there has been any real improvement upon the form which Mr F. R. M. de Paula, O.B.E., F.C.A., introduced in the Dunlop Rubber Co Ltd accounts in the 1930s. A simple two-sided form with the groups of items clearly defined: simple to the eye and logical to the mind. Whether the egg be black, brown, or white, square, oval, or round, if the contents are bad, it is a bad egg. Let us consider now the contents of the balance sheet.

Fixed Assets

Fixed assets come first. Here we have a basis of valuation laid down for us in the Companies Act, 1948. Some companies show cost; some a net book value at or before July 1st, 1948; and some a valuation made at a particular date. It is possible also to have a permutation of, or combination from, those three. Depreciation may be based on the straight-line system or on diminishing values and the rates used may vary up and down the country for the same class or type of assets. That is probably as it should be because conditions vary so much throughout the country; for example, a motor-car located in a flat district of the south country is unlikely to attract the same physical degree of wear and tear as would the same car on the gradients of Sheffield streets and roads.

The traditional method of showing fixed assets is at cost, less depreciation. Is this the correct way for the conditions of the day? The economists say no: the accountants say yes. But is the issue merely one of academic consideration? Is the accountancy profession not bent on assisting the business community: in portraying its affairs in a manner which will be useful to it? Is 'at cost, less depreciation' useful to the business community?

We are constantly told by industrialists that the annual charge for depreciation based upon present book-keeping methods is out of all proportion to what it would be if it were based upon the current cost of making good the physical depreciation which the charge covers in terms of cost.

Though an accountant may tell his clients that they should provide depreciation upon cost

prices he would surely never be so foolish as to advise them to cover for fire and other insurances to the extent only of original cost in a period of rising prices. Similarly, in comparing two businesses producing similar goods, one business by hand, the other business by machine, no one would surely suggest that the charge for increases in wages should be deferred by the business operating by hand until the time when the business operating by machine is due to renew its machines: wages increases are charged immediately, machine cost increases are deferred until the machines are renewed. The difference in timing is not to the advantage of accurate accounting for fixed assets.

A trend towards the use of some different method of valuing and providing for fixed assets is evident today both in business and in the accountancy profession and it may therefore be reasonable to assume that the balance sheet in the future will have fixed assets included on an agreed basis which will not be necessarily the original cost, less depreciation.

New Basis

What basis is it likely to be?

We find a tendency today for businesses to carry through a revaluation of their assets based upon conditions current at the time of the revaluation and to use the new values as the basis for calculating the depreciation provided. Is such a revaluation of real, practical use in a period of continuing change?

A thermometer filled with lead would hardly perform the functions which one expects from a thermometer. Is not a revaluation at a fixed date rather like lead in a thermometer and do we not rather require a system which will provide the equivalent of the mercury to move up and down with changes in the temperature, which will be represented here by changes in the currency values in which the fixed assets are expressed?

The present writer outlined[1], in 1948, a system to deal with the problem of the fluctuating values of assets, which he still considers will meet the requirements in this matter.

A revaluation at a fixed date would seem to necessitate almost as much estimating as would any estimating based upon a fluctuating value of the pound sterling, coupled with the special circumstances of each industry.

In the draft balance sheet printed on page 525 the fixed assets have been entered both at original cost (which is a memorandum entry only) and at approximate current replacement cost. We have also had the suggestion that the position could be expressed in 'stabilized' pounds. Can we really 'stabilize' pounds? Should we not rather keep to the pounds which we have and move along with them?

It is probable also that, from the purely practical point of view, accountants who have to deal daily with practical business men unversed in the technicalities of accounting would fight shy of having to attempt the explanation of the academic operations of 'stabilized' pounds!

Stock-in-trade

Next we come to the current assets and to stock-in-trade which will include raw materials, work in progress, and finished stocks. Traditionally, these items are included in the balance sheet at cost or market value whichever is the lower. This procedure is to anticipate losses but not profits. In a period of change both the cost and the market value may fluctuate violently but it is regarded as bad accountancy to 'write up' stock, so that stock which has been written down to market value in one period and is still held at the next accounting period is retained at the written-down value even though the market value has meantime doubled. Similarly, if ten units held of one commodity were purchased, each at a different price, then the ten units will either be shown at the ten different prices or at an average price which may not coincide with any one of the cost prices.

Where the basis of cost or market value is not used, any one of a whole host of different methods may be used. These varying methods such as LIFO and FIFO are already widely known and will not be detailed here. The purpose in mentioning them is to indicate that though there is a generally accepted basis for valuing stock, it is a basis which is by no means universally followed.

It seems desirable that there should be a method which could be universally followed and the only method which would seem to be able to claim that virtue is that by which stocks in the balance sheet are valued at current replacement cost at the date of the balance sheet. That is to say that stocks would be valued upon precisely the same fundamental basis as fixed assets. The current replacement cost of stocks would be higher than actual cost in a period of rising prices and lower in a period of falling prices: the 'book' profit or loss arising from the fluctuation in values would be credited or debited to the profit and loss account.

Debtors

Debtors will probably continue to be entered in the balance sheet as they are at the present time,

[1] *Depreciation and Renewal of Assets having Fluctuating Values.* (Gee & Co (Publishers) Ltd).

that is, at the net value which is expected to be realized after making provision for bad and doubtful debts, discounts, and any other amounts to be allowed against the gross figure.

Investments

Investments fall into the two categories – quoted and unquoted. Quoted investments may eventually be included in the balance sheet at the lower, or sellers' quotation on the Stock Exchange at the balance sheet date, the book values being adjusted if necessary. The adjustments to the book values would again be credited or debited to profit and loss account.

Unquoted investments make difficult the application of a current value and would therefore require to be retained in the balance sheet at cost or at directors' valuation, where a valuation is made upon a satisfactory basis.

Cash

The next current asset is cash at bank and in hand. Cash in hand is self-explanatory but cash at bank is usually a misnomer and represents the balance which would be in the bank provided all the cheques which had been drawn at the balance sheet date were paid by the bank at that date.

The correct description for cash at bank in the usual balance sheet would be 'cash at bank according to the cash book'. The point is really one of academic accounting, but it would seem better to mean what we say and to have the cash at bank figure as the balance in the bank account according to the bank's ledger at the close of business on the balancing date, and to add the amount of the outstanding cheques to the creditors rather than to deduct them from the bank balance.

Nominal Assets

The last group in the assets are the nominal assets which will include goodwill, patents and trade-marks and preliminary expenses. The real values of those assets will fluctuate daily with the fortunes of the business by whom they are owned. In default of better information they will probably be retained in the balance sheet at cost less any amounts written off them from time to time. This basis is the basis at present commonly used.

The preferable treatment for nominal assets would seem to be to eliminate them entirely from the balance sheet by deduction from the capital and reserves and to leave to the individual judgment each year the value of those assets as suggested by the trading results of the year. Alternatively, the items may be valued each year by a fixed formula and included in the balance sheet at the values arrived at from the formula, but this might require disclosure of more information than some businesses would be willing to give.

The treatment therefore may be: eliminate if possible, otherwise retain at book value, recognizing that this value is not the true current worth. Leaving the assets side of the balance sheet we come across to the liabilities or, as they may more correctly be described, to the credit balances.

Capital

First we have the capital. It is customary to add together all the differing classes of capital and to bring out a single total. This total does not appear to be a figure which gives any useful or instructive information. Where priority capital has rights to participate in profits as well as in capital on a winding-up, it is probably incorrect to show the capital total in any other way. On the other hand, where the priority capital has no rights beyond its fixed rate of interest and priority repayment on a winding-up, it would appear to be more useful to show the priority capital separately from the equity capital.

If, then, the equity capital be separately shown and the reserves and unappropriated profits be added, the total equity figure for the business will be obtained, so far as this figure may be ascertained from the items recorded in the balance sheet.

Reserves

Next we have the reserves which are divided between capital reserves and revenue reserves, the distinction being that the former are not considered as available for dividend purposes while the latter are considered so available.

Capital reserves vary in type: they may be amounts appropriated out of profits for some specific purposes or they may arise from writing up the book values of fixed assets on a revaluation, or from some other special cause. Revenue reserves are usually appropriations of profits or amounts which have been realized and are available for distribution.

It is suggested, and will be supported by later remarks, that the reserves may become restricted to amounts which have actually been realized so that no amounts would be placed direct to reserves or allocated from profit and loss account which had yet to be realized by sale or by some other means.

Hidden reserves are specifically excluded from the balance sheets made up under the Companies Act, 1948 (except in special cases where public policy is involved), but the Act does not really

cover this matter adequately – it would be more or less impossible to do so in the present state of accountancy progress – because many businesses must have substantial hidden reserves in goodwill, patents, trade-marks, and other business connexions for which no value appears in the balance sheet.

Total capital and reserves would now be split between the priority and the equity capital showing surely a more useful position than is achieved by the usual balance sheet today.

Future Taxation

After the total of capital, reserves and surplus, we may find the amount set aside for future taxation. It is possible that the need for this item will disappear by the amendment of taxation law to provide that tax will be calculated upon the profits of the accounting year rather than on the profits of the previous accounting year as is the position today. So long as the present position continues there would be set aside the income-tax estimated to become payable on the current year's profits and it is already becoming common practice to show this amount immediately after capital and reserves.

Liabilities

Next we have the liabilities. Firstly the long-dated liabilities such as debentures and fixed loans, and secondly the immediate liabilities described as current liabilities and provisions.

Though the intrinsic value of the currency may fluctuate constantly the quantity of the currency which has to be paid to settle the long-dated liabilities remains constant so that no change in the present treatment seems likely. In the current liabilities we have an up-to-date position which should be satisfactory for all accounting purposes.

Provisions

Provisions are not quite so straightforward. Some provisions being specific amounts such as 'provision for taxation accrued to date', and 'provision for dividends', are straightforward, but provisions of continuing amount such as provisions for repairs are not. Take, for example, the provision for relining blast furnaces which would appear in the balance sheet of an iron and steel manufacturer. The period between relinings may vary from three years to seven years according to circumstances in the furnaces, so that the relining provision for one furnace may be built up over a number of years. Each year would be judged on the circumstances of that year but it would be most unusual, to say the least, if the provision were just added for each year to cover the experience of that year without reviewing the whole position to confirm that the provision was in total adequate to cover the estimated requirement up to that point. In other words, if the cost of relining increases, the annual allocations to the provision made in previous years will be augmented to cover the deficiency which the increased cost has caused in the amounts set aside in those previous years.

Another way of stating the position is that provisions of more than one year's duration will normally be built up on a replacement cost basis.

Draft in New Form

Having thus run through the balance sheet items there is printed at page 525 a draft balance sheet showing the suggested changes which have been discussed.

It will be observed that the capital and reserves total includes only profits which have been realized and that any surpluses which have arisen on adjusting fixed assets and stock-in-trade to the approximate current replacement costs have been shown as amounts set aside for specific purposes.

Disclosure

One point which is always cropping up is that of the quantity of information which should be disclosed in published balance sheets.

It is not to be expected that British manufacturers will be willing to reveal the amount of data relating to their businesses which, for example, their American counterparts appear willing to give. It must be remembered that Britain today has a precarious position industrially because of the great growth of industrial activity throughout the world and, except in the large established international concerns, consideration must be given to the effect which full knowledge of the amount of competition which businesses could withstand would be in hands abroad. The American manufacturer has the advantage of a large home market which frees him to a considerable extent from the effects of competition in foreign markets.

Balance Sheet Summary

In addition to the balance sheet in the usual form, as shown on page 525, it is suggested that there may also be provided a summary which will show totals only and thus eliminate any possibility of the shareholder, who has little or no knowledge of accounting technique, misunderstanding the relationship of the figures in the balance sheet itself.

As has earlier been said, a great variety of accounts are produced today and if a summary in

BALANCE SHEET, December 31st, 19.......

19......	£	£
I CAPITAL		
Authorized, issued, and fully paid.		
Preference shares of £1 each		1,000,000
Ordinary shares of £1 each	2,000,000	
II REVENUE RESERVE AND SURPLUS		
General reserve	1,000,000	
Profit and loss account balance	250,000	
		3,250,000
		4,250,000
III SPECIFIC ALLOCATIONS		
Amounts set aside for:		
Replacement of fixed assets		
Obsolescence of fixed assets		
Diminution in value of stock		
Diminution in value of investments		
Future taxation		
IV THREE PER CENT DEBENTURES		
V CURRENT LIABILITIES AND PROVISIONS		
Creditors and accrued charges		
Provision for taxation accrued		
Provision for repairs ..		
Provision for dividends (net)		
Provision for		
£		£

19......	*Original cost*	*Approximate replacement cost*	*Renewal provisions*	
I FIXED ASSETS	£	£	£	£
Land ..				
Buildings				
Machinery and plant				
Fixtures and fittings ..				
Motor vehicles ..				
	£	£	£	
II CURRENT ASSETS				
Stock-in-trade at replacement cost				
Debtors and prepayments ..				
Investments:				
Quoted – at market value ..				
Unquoted – at directors' valuation				
Cash in hand and at bank ..				
III NOMINAL ASSETS			£	
At cost, less amounts written off			(21,842)	
Preliminary expenses ..				
Patents and trade-marks ..				
Goodwill				
£				£

N.B. – The details of specific allocations may be shown in a separate note.

BALANCE SHEET SUMMARY
December 31st, 19.......

CURRENT ASSETS		£
Less Current liabilities ..		
I AMOUNT OF WORKING CAPITAL		£
Fixed assets	£	
Less Debentures ..		
		£
Deduct: Specific allocations		
II NET BOOK VALUE OF TANGIBLE ASSETS		£
Deduct: Preference capital		
III BOOK VALUE OF EQUITY		£
Made up of:	£	
Ordinary capital ..		
Revenue reserves and surplus		
Less Nominal assets ..		
	£	

standard form were supplied with each one the advantage to the shareholder must be considerable. The great need, of course, is simplicity, though not an over-elaborated simplicity, since that may create confusion by too much brevity.

Exempt Private Companies

Two final points on the balance sheet relate to exempt private companies under the Companies Act, 1948. An exempt private company is permitted to make loans to directors, which must be disclosed on the balance sheet, and to employ almost anybody to act as auditor and to sign the statutory audit certificate. Both those provisions seem bad. An exempt private company need not file its accounts with the Registrar of Companies, so that, apart from shareholders and debenture-holders, no one can ascertain the financial position of the company or who are the auditors.

It would appear unwise to permit directors to borrow from their companies because: (*a*) if they are able to give security they can borrow anywhere; (*b*) if they are unable to give security then they are a bad risk and should be prohibited from borrowing, so that the interests of creditors and others financially interested in the company may be preserved.

Auditors of all limited companies should be properly qualified because: (*a*) the public company which requires to have a qualified auditor will

usually already have one and have also a good system of internal control; (*b*) the small private company requires the qualified auditor because of the greater opportunities for defalcation and irregularities which exist and also to protect the interests of creditors.

INCOME TAX AVOIDANCE

by H. A. SISSON, O.B.E., M.A., F.C.A.

IT is to be hoped that the title of this paper will not raise false hopes that the author has discovered some way of avoiding the burden of income-tax. Nor would it be of much use if he had, because the Government would immediately close the gap by legislation, and make it retrospective if necessary.

Fraud Ruled Out

It is well established that the subject is entitled so to arrange his affairs as to attract the minimum of tax. But there is a fundamental limit to this right – the subject must not resort to 'fraudulent practices'. Section 132 of the Income Tax Act, 1918, which dates from 1842, says that, where a person who ought to be charged to tax is not duly charged because he has:

'(*a*) fraudulently changed his place of residence or fraudulently converted, or fraudulently released, assigned, or conveyed any of his property; or
(*b*) made and delivered any statement or schedule which is false or fraudulent; or
(*c*) fraudulently converted any of his property, which was chargeable, by altering any security relating thereto or by fraudulently rendering it temporarily unproductive, in order not to be charged for the same or any part thereof; or
(*d*) been guilty of any falsehood, wilful neglect, fraud, covin, art or contrivance whatsoever,'

he shall be charged treble the amount of the duty. There is a subsection imposing a penalty, now £500, on anyone who aids, abets, assists, incites, or induces, another person to make a false or fraudulent statement.

Looking at the actions which may render a person liable to treble duty, it will be noticed that (*b*) says, 'made and delivered any statement or schedule which is false or fraudulent'. It does not say false *and* fraudulent, nor does it say knowingly false, so that it might seem that a purely innocent mistake, which made a statement in fact false, could involve the penalty. However, the judgments in the House of Lords case, *Attorney-General v. Till* (5 T.C. 440), established that, in the absence of negligence, an unintentional error does not attract any penalty providing that if and when the error is discovered by the taxpayer the Revenue is notified.

Under (*d*) the taxpayer is to be liable to the penalty if he has 'been guilty of any falsehood, wilful neglect, fraud, covin, art or contrivance whatsoever'. 'Covin' means conspiracy or collusion, and is therefore clearly tainted; but 'art' merely means skill, and 'contrivance' is only the act of inventing or devising. It might therefore seem that the mere exercise of skill and the invention of an ingenious scheme for minimizing tax could render the taxpayer liable to penalties, and that this would nullify the right of the subject so to arrange his affairs as to attract the minimum of tax. But the heading of the section refers to 'Fraudulent Practices', and the *ejusdem generis* rule would apply to the words 'art or contrivance'. Moreover, (*d*) starts with the words 'been guilty of . . .', and it could hardly be said that a person was guilty of skill, unless the skill was used for some illegal or fraudulent purpose. Anyway the Revenue has never attempted to bring tax-dodgers' schemes, however ingenious, within Section 132.

Successful Schemes of the Past

Now let us consider some cases involving transactions which have resulted in substantial amounts of tax being avoided, and see how they have been dealt with by legislation.

First, *C.I.R. v. Sansom* (8 T.C. 20), which came before the Court of Appeal in 1921. Mr Sansom was substantially the sole proprietor of a private company which made considerable profits. The company of course paid income-tax on its profits, but instead of paying dividends, lent money without interest or security to Mr Sansom. When the company was wound up, the assets, including the accumulated net profits, came to Mr Sansom as capital, and his loans were set off. He thus in effect enjoyed the income without paying super-tax. Incidentally, the author operated this principle on a considerable scale for one of his clients, but instead of winding the company up, cancelled the client's loan by getting him to transfer to the company some patents. However, all this was too good to last, and the Revenue struck back with Section 21 of the Finance Act, 1922, which starts with the words:

> 'With a view to preventing the avoidance of the payment of super-tax through the withholding from distribution of income of a company . . .'.

The section gave the Commissioners power to apportion among the members for super-tax purposes undistributed income of a private company, if the company had not distributed a reasonable part of its income within a reasonable time. As originally drawn the section could obviously be avoided in many ways, notably by the use of two or more companies, and a long battle ensued between the tax-dodgers and the Revenue. However, by repeated

A paper read before the Northern Chartered Accountant Students' Society on October 1st, 1951.

patching the law is now practically watertight, and the only sur-tax benefits to be got from limited companies are that one may retain a reasonable amount of profit in a genuine trading company for the development of the business, and in an estate company for the improvement of the estate.

Next let us take *Beak v. Robson* (25 T.C. 33; 21 A.T.C. 20, 50 and 397), a case in which the author had a hand. Here a director of a company entered into a service agreement with the company for five years at six months' notice on either side, and in addition covenanted in consideration of an immediate payment of £7,000 not to compete with the company within a radius of fifty miles for five years after the termination of the agreement. The Revenue sought to assess the £7,000 under Schedule E as arising out of the office, but failed all the way up to and including the House of Lords, where the case was heard in December 1942. Mr Robson therefore received the £7,000 free of tax and sur-tax; incidentally the company did not seek to get the payment allowed against its profits for income-tax.

Retrospective Legislation

It was easy to see how the principle of *Beak v. Robson* could be exploited, and one rather expected some immediate legislation, but it was not until efforts were made to carry sums of £100,000 through the gap in 1949, that the Government shut the door by Section 26 of the Finance Act, 1950, and, as some think unfairly, made it restrospective to 1949–50.

Covenants

Another interesting case is *The Duke of Westminster v. C.I.R.* (19 T.C. 490; 14 A.T.C. 77). Here the Duke of Westminster entered into a number of seven-year covenants to pay annual sums less tax to persons in his employ, and deducted the gross equivalent of the payments from his total income for sur-tax. The Revenue contended that so long as the covenantees remained in the Duke's service, the payments were (in effect) payments for services, and not allowable as deductions from income. The case was settled in favour of the taxpayer by the House of Lords in May 1933, but the door was not closed on this form of sur-tax saving until Section 28 of the Finance Act, 1946.

The Duke of Westminster's case is of course merely an incident in the war between the taxpayer and the Revenue about covenants and settlements, the first shot of which was fired for the Revenue by Section 20, Finance Act, 1922. This is too big a subject to tackle in detail here, but it may be said that it is no longer possible to educate one's children, while under age and unmarried, out of income free of sur-tax and partly free of income-tax.

Children Under Age

The best that can be done for children while they are minors and unmarried, is to transfer capital irrevocably to trustees with directions to accumulate the income until the child comes of age or marries. If any income is advanced for maintenance it is treated as the income of the settlor for sur-tax. Care must be taken that the terms of the trust are such that in no possible circumstances can any part of the income or capital come back to the settlor or his wife. This is done by providing that on the death of the child, or of the last surviving child, the fund goes to the child's statutory next of kin, as though both parents were dead. If the trust is properly drawn, the child, on attaining the specified age or marrying, can claim under Section 25, Income Tax Act, 1918, its appropriate income-tax reliefs over the whole period of accumulation, and the income while accumulating does not count as income in the child's own right to prevent the parent from claiming child's allowance.

Present Position

The war of the settlements has been quiet since 1946, and it is still open to the taxpayer to alienate income both for income-tax and sur-tax by making covenants, which must exceed six years, in favour of named individuals, including children if of age or married, providing the persons named are not employed by him or accustomed to act as his solicitor or agent. It is useful also to remember that grandparents can still make covenants effective for income-tax and sur-tax in favour of infant grandchildren. If, however, the gross equivalent of the income advanced for maintenance of the grandchild exceeds the amount of the child allowance in any year, the parent will lose that allowance for income-tax. The amount advanced for maintenance should therefore not at present exceed £70 per annum, or, if circumstances are suitable, should substantially exceed that amount.

Covenants in favour of charities are still good for income-tax, but the payments are not deductible for sur-tax purposes.

Artificial Transactions

Although there is no clause in the Income Tax Acts enabling the Commissioners to set aside artificial transactions as such, it is unwise to try to avoid tax by resorting to transactions which are obviously artificial and unreal. Let us consider a hypothetical case as follows: the directors and shareholders of a company wish to give a substantial reward to their manager without attracting sur-tax in his hands, and the directors therefore at a properly convened meeting resolve to buy the manager's bicycle for £10,000. The transaction is duly carried through and recorded in the company's books, so that the bicycle appears as a fixed asset at the cost price of £10,000. Incidentally, at a later date, this is written down to £10 by transfer from reserve. There is little doubt that the Commissioners would raise an assessment on the manager under Schedule E in the sum of £9,990, and in the company's assessment would only allow wear and tear on £10 for the bicycle; and both assessments might go to appeal. The appellants could cite *Kirby v. Steele* (27 T.C. 370; 25 A.T.C. 451) in their favour:

In this case Mr Kirby, who was a road transport contractor, claimed that he had sold six lorries to his brother for £1,500, and that about two years later he had bought back five of them, with another lorry, for £15,000. He appealed against assessments which did not give him wear and tear allowance on the £15,000. The General Commissioners dismissed the appeal on the ground that the appellant had not produced sufficient evidence to show that either transaction had in fact taken place, and this decision was supported by the Court. In the manager's bicycle case there would be ample evidence that the transaction had in fact taken place, and since in Mr Kirby's case the Commissioners and the Court directed their attention to whether or not the transactions had occurred, it is reasonable to assume that if they had been satisfied on this point, Mr Kirby would have won his case.

In spite of this argument, it is probable that if the manager's bicycle case was brought before the Commissioners, they would get out of the difficulty by finding as a fact that the transaction was not what it purported to be, namely, the purchase of a bicycle for £10,000, but was in substance the purchase of a bicycle for £10 and the giving of a bonus of £9,990 to the manager; and the Courts would not be likely to upset this finding.

Incidentally, the manager's bicycle scheme would be disregarded for profits tax under Section 32, Finance Act, 1951, which entitles the Commissioners to set aside transactions for which the main purpose, or one of the main purposes, is the avoidance or reduction of profits tax.

Borderland Cases

The bicycle scheme as set out above is of course an extreme example, but one can easily imagine borderland cases where for instance an oil painting of the manager's grandfather is bought for, say, £2,000. That the Revenue are anxious about such transactions is shown by Section 37, Finance Act, 1951, which deals with transactions between associated persons and companies and applies to both income-tax and profits tax. The section as it stands would not apply to the manager's bicycle, unless the manager had control of the company, which it is assumed he had not. However, if steps are taken on a substantial scale to get round the section, we may expect fresh legislation.

In conclusion it may be said that it is the duty of the accountant to help his client so to arrange his affairs as to attract the minimum of tax, but that there must be no covin, or concealment of any material fact. Moreover, one should avoid ambitious and complicated schemes – it is better to be modest and save a little, than to try for too much and get nothing but trouble and law costs.

WEEKLY NOTES

Metal Finishing Productivity Report

The team representing the British metal finishing industry which was sent to the United States last year by the Anglo-American Council on Productivity published its report on Monday.[1] Like so many of its predecessors, it was impressed by the cost-consciousness which exists at every level in industry and by the efforts of management to disseminate cost data to all supervisory grades. Production costs, for example, made up of productive labour cost, non-productive labour and material costs, are generally established weekly and made known to all concerned. The team considers that productivity might be stimulated if the same practice were adopted or extended in this country where, at present, only the higher levels of management have access to such information – if indeed it is available at all. Given the facts, the American worker does not mind working hard to increase his employers' profits because he knows that he will share in the prosperity which he is helping to create.

The finishing operation in America is regarded as part of the production line and is tackled with corresponding thoroughness. There is no hint of the attitude that 'finishing' is a minor but unavoidable nuisance. At the same time, the American approach to the job is realistic. If a surface, such as that of the bumpers or wheel discs of a car, is never under close scrutiny then the standards of polishing and inspection are deliberately lowered and what is called 'kerb-side finish' is applied. On the other hand, the surfaces of articles constantly being looked at at close range, such as powder compacts and cigarette cases, are finished to a high standard. The team recommends that similar discrimination might be made in this country although care would have to be taken not to affect the reputation for high quality goods which Britain enjoys.

[1] Metal Finishing Productivity Report. The Anglo-American Council on Productivity, 21 Tothill Street, London, SW1. (3s 6d post free).

Income Tax Consolidation

The draft Income Tax Consolidation Bill which we referred to in our issue of March 31st last has now been presented to Parliament and has had a second reading. The Bill as presented contains three additional sections, being the substance of Sections 23, 36 and 37 of the Finance Act, 1951, dealing respectively with building society arrangements, avoidance of tax by changing a company's residence, and sales between associated persons. There have been other, slight, amendments arising out of comments made in response to the invitation issued when the draft Bill was first published, for instance the word 'allowance' in clause 225 (5) has been altered to 'relief'. However, the point we made as to the proviso to that sub-clause has not been met. It

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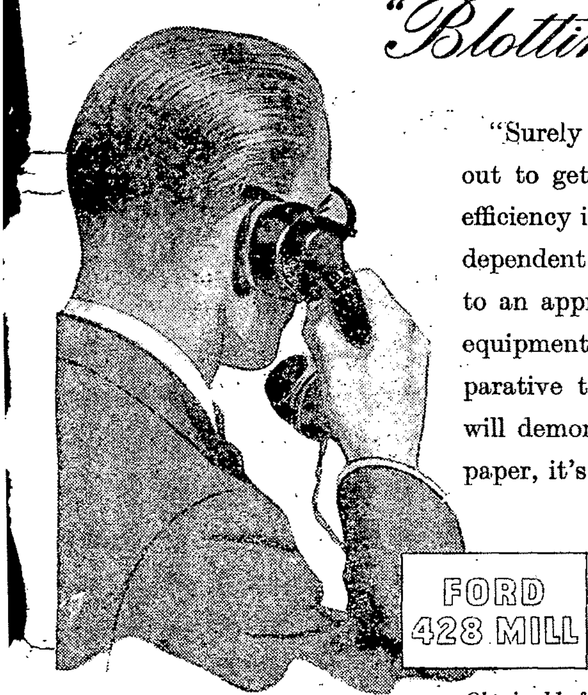

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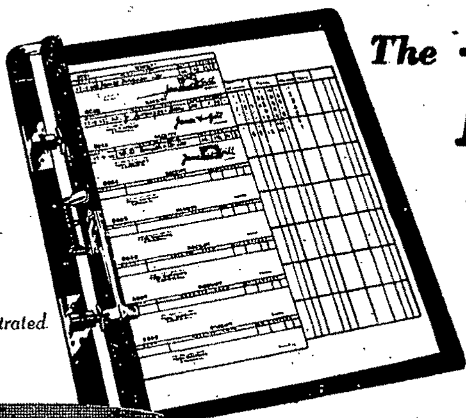

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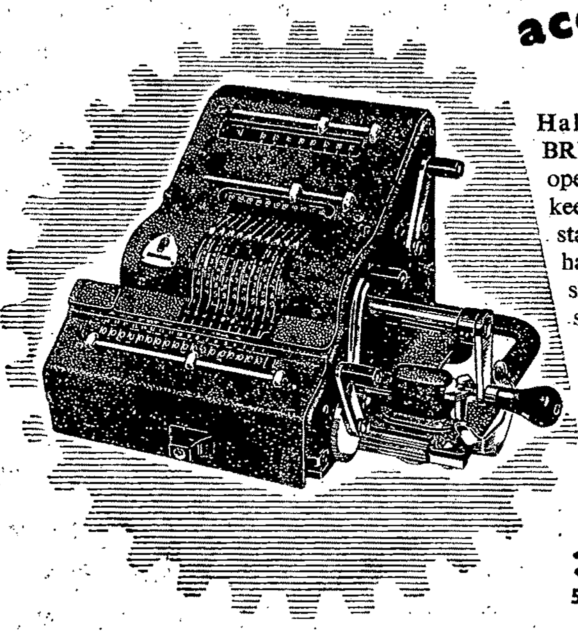

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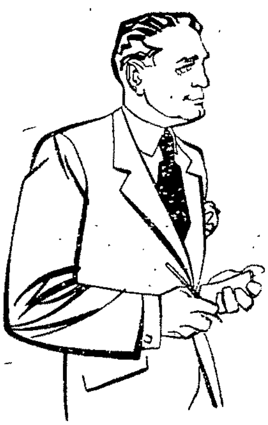

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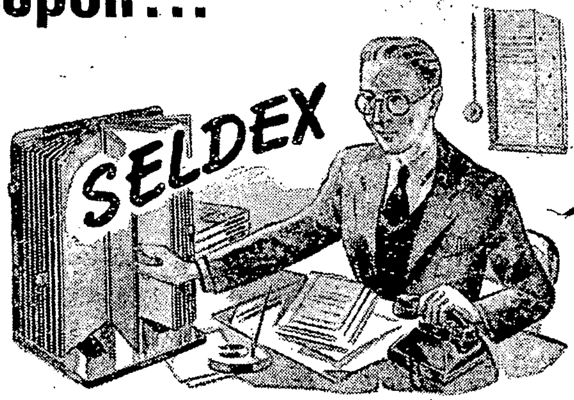

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concerns marginal life insurance relief. At present, the deduction in the computation of marginal relief is one-quarter of the full standard rate on the excess of the income over £1,000 or £2,000. Under the Bill the standard rate will be restricted to 7*s*, thus increasing the relief. Either the Bill does not accurately reproduce the existing law or the Revenue practice has for some years been wrong.

It is hoped that the Bill will be on the statute book in time for the tax year 1952–53.

Morris-Austin Merger

A plan for the complete merger of Morris Motors and the Austin Motor Company was announced last week-end. So far only the broad financial arrangements have been divulged and details of what each company hopes to get out of the new plan in terms of more efficient production will have to await a further announcement. It will be recalled, however, that the two companies made an arrangement some time ago, which was never put into effect, to exchange technical information and adopt standardized components and so on. Presumably, the new scheme has been designed to bring the economies of ever larger scale production and the benefits of standardized components to the new group. It seems to be the intention, however, to maintain the goodwill of the existing companies by retaining the characteristic Morris and Austin models.

The financial arrangement, so far as can be seen from the first announcement, is a simple one. By something of a coincidence the two groups are about the same size on a conventional, approximate measurement. The last balance sheet of Morris totalled £35 million; that of Austin, almost £31 million. The ordinary shares of one company are priced by the market to within a shilling of the other. The merger will be brought about by an exchange of ordinary shares by the shareholders of each group for shares in a new holding company. The rights of the prior ranking capital of each company is guaranteed both as to income and capital. The scheme comes into force provided that Treasury agreement and that of 90 per cent of the ordinary stock and shareholders are obtained.

Steel for Aluminium

A means had now been found of obtaining for this country a certain amount of steel from the United States – a prospect which at one time seemed exceedingly doubtful. During the first quarter of 1952 this country will receive from America 25,000 tons of finished steel and may place orders in the United States for 46,000 tons of 'premium price' ingots. In return, the United States will be allowed to buy 22 million lb. of Canadian aluminium ingot which were destined for delivery to this country. The aluminium will be sent to Britain by the United States aluminium industry in the fourth quarter of next year. In other words the aluminium from Canada is a loan against future delivery to this country. This country gets one other benefit from the scheme. United States scrap merchants have agreed to stand aside in favour of the British in the German scrap market.

This deal has been made possible by the temporary difficulties in which the American aluminium industry finds itself. The allocation scheme to users has broken down; there is a power shortage (electric power in large quantities is necessary in the production of aluminium) and there have been sharp growing pains in the vast expansion programme which the American aluminium industry has set itself to achieve this year and next. In Canada, however, expansion has gone ahead, fortified by long-term contracts with this country, and the industry in that country is producing up to schedule.

Behind the actual case of steel and aluminium lies a general principle. This is the first instance of barter among contract holders in this country and the United States since the days of the war. It surely points to the possibility of this technique of co-operation being used in other cases in future.

Commonwealth Trade in 1950

The recently published memorandum on Commonwealth Trade in 1950 (H.M.S.O., price 6*d*) covers a year which may yet achieve some notoriety in the annals of the Empire's trade. At the time it looked as though it was a year when the dollar problem in its post-war phase was for some time at any rate substantially solved. A new trend in trade seemed to have developed – a new trend in world trade in fact. But towards the end of the year it became clear that 1950 was more likely to go down as a freak – as an isolated instance contrary to the general trend. By early 1951 it had become clear that 1950 had not removed the dollar problem but had merely provided a very temporary respite.

The figures of Commonwealth trade for that year reflect the temporary fortunate features about the rest of the world's trade with the dollar area. The Commonwealth maintained its position as a world exporter, that is, it held its proportion of the total. As an importer it lost some ground. A glance at the movements of export and import prices compared with the changes in the volume of trade shows how much was owed to the high prices obtained for certain Commonwealth commodities. Export prices were higher on the year in the United Kingdom; they were fantastically higher for Australia; New Zealand and Ceylon also recorded large advances. Import prices were notably higher for all members of the Commonwealth (colonial territories are not shown). So far as volume was concerned, this country, Ceylon and Southern Rhodesia exported more and Australasia imported considerably more.

These features in 1950, of course, were to provide the seeds from which germinated the setback of 1951 – for apart from wool which has had meteoric rises and falls this year, the world trend of prices has swung against the Commonwealth.

FINANCE AND COMMERCE

Stock markets have gained some respite and have developed a steadier tone. The prospect of further new issue operations despite the heavy failure of the Lever debenture operation still causes uncertainty. Markets remain very tender.

Thornycroft's Fiftieth Year

We give this week the accounts of John I. Thornycroft & Co Ltd, shipbuilders and repairers, marine engineers, and motor vehicle constructors. This report and accounts in the original is a first-class product. It is the company's fiftieth year and a thirty-six-page high-gloss illustrated booklet has been produced to mark the occasion. In this respect, shipbuilders are fortunate. Their products make such excellent pictures for the annual report – including, in this case, cargo and passenger ships, launches, yachts and a stern-wheeler. The accounts are marked by excellent layout.

The profit and loss account this year is set out in single-column form over two pages. This year's profit includes a substantial amount in respect of delayed settlement of contracts completed or largely completed before the beginning of the year. In this connexion, Sir John E. Thornycroft, the chairman, emphasizes that no one year can be taken on its own, as very often new construction and repair jobs extend over two or three accounting periods. Similarly, new design before the production of new commercial vehicles may involve a number of years' intensive effort before the results of the work show returns to the profit and loss account.

E. K. Cole

Our thanks are due to the Chief Accountant of E. K. Cole Ltd for a reply to a reader's query on the company's accounts, which appeared in our issue of August 11th. The point raised was that the consolidated balance sheet showed 'Excess profits tax post-war refund' at £7,320 at March 31st, 1950, and at nil on March 31st, 1951, without explaining what had happened to the reserve.

In his letter the chief accountant explains that the refund was in respect of a subsidiary, the controlling interest of which was sold during the year, and refers our reader to page 133, where he will note that the excess profits tax post-war refund does not appear in the parent company's balance sheet, whilst it does appear in the consolidation. 'Furthermore, if he again refers to page 133', the letter continues, 'he will note that the investment at cost in subsidiary companies has shown a very heavy reduction as between March 1950 and March 1951, whilst trade investments have shown a considerable increase between 1950 and 1951. The chairman, in his statement, referred to these significant changes, which are naturally reflected in the consolidated balance sheet, but he did not refer to every individual change due to the loss of control of the former subsidiary company indicated above.

'There seems to be no necessity in our view', the chief accountant's letter concludes, 'for the company to make specific reference on the face of its accounts in respect of the disappearance of the excess profits tax post-war refund when the amount is not material in view of the size of the balance sheet and when it is self-evident from the study of the accounts what has happened.'

Tribute to E.S.A.

We are indebted to Mr L. B. Dyball, A.C.A., Financial Director of The Educational Supply Association Ltd, for his company's accounts to May 31st last. The company provides books and furnishings for schools and gives a useful indication of its activities, with pictures of 'E.S.A. school furniture in the post-war classroom'. With the pictures is an extract from a letter from a director of a county education authority who, on his retirement, pays tribute to 'the absolute integrity, fair-dealing, sportsmanship, "give and take" and, above all, the courtesy, tact and dignity with which all members of the firm have dealt with us.'

Mr W. R. D. Crowther, the chairman, draws attention in his statement to the rise in the cash item from £114,770 to £163,809 and to the fact that the figure now exceeds the £150,000 bank loan. There is no loss on bank interest paid, he explains, because interest is only paid on the net balance when the loan is more than the cash. Arrangement has now been made to run on overdraft instead of on loan account, which means that in future years only the net cash position will appear, instead of loan one side and cash the other.

Right Impression

Despite all that has been said on the subject of preliminary statements of profits in advance of the actual publication of accounts, one still sees these statements prepared with lack of imagination. The essential aim must be to ensure that the information given is capable of only one construction – and that, the right one.

A good illustration of best practice is provided by The Vigzol Oil Co Ltd. The directors of this company state that 'we have given you the profits before taxation, as, if we had not done this the profit after taxation would show a reduction, giving the impression that the profit for the year was lower than last year, which is not the case'.

It may seem all so very simple, but it is surprising sometimes what little regard seems to be given to conveying this right impression.

Money Market

There was a further rise in the Treasury bill rate on November 23rd to 19*s* 2·96*d* per cent. Applications totalled £237,590,000 for the £170,000,000 of bills offered and allotment was on a 63 per cent basis with the bid at £99 15*s* 2*d*.

JOHN I. THORNYCROFT & CO LTD AND FIVE SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at July 31st, 1951

1950 £	Capital and Reserves	1951 £	1951 £
750,000	Share Capital of John I. Thornycroft & Co Ltd – as set out on page 10 of the report		1,050,000
	Capital Reserves		
159,071	Excess Profits Tax, Post-War Refund Suspense Account		159,074
	Revenue Reserves		
1,304,554	General	1,231,851	
412,108	Future Income Tax 1952–53	548,773	
210,278	Profit and Loss Accounts (carry forward)	244,113	
1,926,940		2,024,737	
19,468	Excess of nominal value of share capital of Subsidiary Companies over book value of those shares to John I. Thornycroft & Co Ltd	19,468	
1,946,408			2,044,205
2,855,479	Surplus of Assets over Liabilities: Interest of Shareholders of John I. Thornycroft & Co Ltd		3,253,279
	Applicable to: 6 per cent Cumulative Preference Shares £200,000; Participating Preferred Ordinary Shares £250,000; Ordinary Shares £2,254,506; Future Income Tax Reserve £548,773		
	Provision for Future Liabilities		
8,584	Deferred Repairs		6,236
	Current Liabilities		
9,877	Due to Subsidiary Companies, not Consolidated, plus profit on Stocks unsold	22,087	
714,024	Creditors and Accrued Expenses	782,713	
25,000	Special Provisions	25,000	
856,726	Provision for Current Taxation (including £412,108 transferred from future Income Tax Reserve)	1,030,560	
565	Unclaimed Dividends	18,563	
43,519	Proposed Final Dividends (net) of John I. Thornycroft & Co Ltd	31,500	
1,649,711			1,910,423
£4,513,774			£5,169,938

1950 £		1951 Cost or Book Value £	1951 Accumulated Depreciation £	1951 Net £
	Fixed Assets (see note (c))			
1,000	Goodwill, Patents, Patterns and Drawings	86,672	85,672	1,000
488,969	Land and Buildings	1,049,254	571,424	477,830
189,190	Plant, Machinery and Works Craft	1,153,826	960,654	193,172
35,989	Works Fixtures, Fittings, Services and Office Equipment	79,709	49,176	30,533
715,148	**Total Fixed Assets**	£2,369,461	£1,666,926	702,535
	Investments			
26,131	In Subsidiary Companies, not Consolidated (at cost *less* amounts written off)		26,131	
1,520	Trade Investments (at cost)		1,777	
27,651				27,908
	Current Assets			
1,476,505	Stock, Loose Plant, Tools, etc., and Work in Progress, including accrued profit as valued in the Accounts consolidated, *less* instalments received on account of Work in Progress and reserve for inter-company profits in those values	2,003,184		
13,642	Amount due from Subsidiary Company, not Consolidated, *less* Profit on Stocks unsold	—		
639,967	Debtors, Bills Receivable and Prepayments, *less* Provision for Doubtful Debts and Contingencies		809,918	
300,000	Tax Reserve Certificates		260,000	
1,340,861	Balances at Bankers and Cash in hand		1,366,393	
3,770,975				4,439,495
£4,513,774				£5,169,938

(a) Commitments for Capital Expenditure have been entered into by the Group amounting to approximately £86,285.

(b) Provisional E.P.T. Post-war Refund up to July 31st, 1945, has been taken up in these Accounts. A further sum will be due for the subsequent period.

(c) With the exception of Works Fixtures, Fittings, Services and Office Equipment, which appear at book value at July 31st, 1947, less subsequent sales, plus additions at cost, the basis of valuation of Fixed Assets is that of cost.

The Subsidiary Companies consolidated above are Transport Equipment (Thornycroft) Ltd, Basingstoke Buildings Ltd, The Hampton Launch Works Ltd, Thornycroft (Australia) Pty Ltd and Thorneycroft (New Zealand) Ltd. The Subsidiary Companies not consolidated are Thornycroft Mecanica e Importadora, S.A. and Thornycroft Argentina Limitada Sociedad Anonima Comercial e Industrial. Brief particulars relating to these two companies are given on page 16 of this report.

Basis of Conversion of Foreign Currencies as stated on page 11 of this Report.

JOHN I. THORNYCROFT & CO LTD AND FIVE SUBSIDIARY COMPANIES

Consolidated Profit and Loss and Appropriation Account for the year ended July 31st, 1951

1950 £			1951 £	£	£
1,049,082	*Special credits £80,400* *Contracts completed before 1/8/1949 £184,000*	Balance on Trading for the year .. before providing for items enumerated in this account (including profits credited in respect of delayed settlement of contracts completed before August 1st, 1950, £475,000 approximately).		1,160,523	
		Add:			
46		Transfer Fees		90	
787		Dividend Received from Associated Company		—	
—		Provision for Deferred Repairs no longer required..		1,384	
—		Dividends received from Subsidiary Company not Consolidated		19,336	
1,031		Interest on Tax Reserve Certificates		2,150	
19,242	*(Including £9,616, for previous years)*	Other Interest		8,441	
1,070,188					1,191,924
		Deduct:			
8,922		Additional Provision for Deferred Repairs		—	
10,000		Contribution to Benevolent Fund		10,000	
		Depreciation:			
29,668		Buildings..	27,649		
64,185		Plant, Machinery and Works Craft	60,563		
13,232		Works Fixtures, Fittings, Services and Office Equipment ..	10,904		
				99,116	
2,102		Audit Fee and Expenses (including Foreign Branch)		2,039	
		Directors' Remuneration: (Directors of Parent Company only):			
2,700		Fees	3,736		
19,538		Remuneration as Managers ..	29,131		
				32,867	
—		Expenses of New Issue		439	
611,847	*Subsidiary Companies not (consolidated £88,000)*	Income Tax, Profits Tax, and Dominion and Foreign Taxes applicable to the Profits credited in the current year including £103,000 in respect of Profits of Subsidiary Companies not consolidated		681,666	
762,194					826,127
307,994		Carried forward			365,797

1950		1951 £	£	£
	Profit – brought forward –			
174,077	John I. Thornycroft & Co Ltd		234,676	
133,917	Subsidiary Companies		131,121	
307,994				365,797
	Add:			
	Balance of Profit brought forward from previous Balance Sheet:			
169,466	John I. Thornycroft & Co Ltd		132,233	
30,328	Subsidiary Companies ..		78,045	
				210,278
507,788	Profit available for Appropriation			576,075
	Less:			
86,200	Subsidiary Companies Transfer to General Reserves		25,000	
16,706	Interim Dividends paid on June 26th and July 31st, 1951 (*less* tax)	23,822		
	Final Dividend paid July 31st, 1951, on Preference Shares and Participating Preferred Ordinary Shares (*less* Tax)	10,565		
			34,387	
102,906				59,387
404,882	Balance which it is proposed to deal with as follows:			516,688
25,000	To Special Provisions		—	
105,035	„ General Reserve		200,000	
43,519	„ Final Dividend on Ordinary Shares (*less* Tax)		31,500	
21,050	„ Additional Provision for Profits Tax applicable to Final and Interim Dividends		41,075	
194,604				272,575
£210,278				£244,113
	Balance of Profit carried forward to Balance Sheet:			
132,233	John I. Thornycroft & Co Ltd ..		59,947	
	Subsidiary Companies as brought in	78,045		
78,045	*Add* Net Increase	106,121		
			184,166	
£210,278				£244,113

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Capital Employed

SIR, – With reference to the correspondence under this heading, I agree that a definition of capital employed is required, fully supported by details of the items to be included and the items to be excluded from the calculation.

I understand 'capital employed' to be the total assets appearing on the balance sheet, less the other investments, and less the trade creditors as shown below. If we take the items appearing on the average balance sheet we can make clear the treatment of the various items:

Liabilities: Share capital – ordinary, preference. Capital reserves – profit on sales of assets, share premium accounts, other capital reserves. Revenue reserves – general reserves, special obsolescence, bad debt reserve, replacement reserves, stock reserves, superannuation, other reserves, profit and loss account balance, reserve for future taxation (3), debentures, bank overdraft, loans, benevolent fund (4), trade creditors (2), accrued charges (2), tax payable (3), dividends proposed but NOT paid (5).

Assets: Fixed assets (after depreciation), stocks and work in progress at full cost, trade investments (including shares in subsidiaries), other investments (1), trade debtors at full value, cash, tax reserve certificates (6), treasury deposit receipts (6), goodwill (7), trade-marks and patents (7), loans to employees, payments in advance.

From the foregoing, capital employed is made up of total assets less: (1) other investments (i.e. capital unemployed for a fairly long period); (2) trade creditors and accrued charges (i.e. capital obtained free for the time being).

There are a number of items appearing above which require clear decision as to their treatment, as follows: (3) Reserve for future taxation and taxation payable. This is in the form of a short-term loan. When it is paid, capital employed is reduced. This does not seem to be the same as a creditor from whom something has already been received; (4) benevolent fund and employee savings. This again appears to be in the nature of a temporary loan to the company; (5) dividends proposed but not paid. This is somewhat similar to tax reserve; (6) tax reserve certificates and treasury deposit receipts. These are in the nature of capital temporarily unemployed. Possibly these should be deducted from total assets when calculating capital employed. This point is open to question, however, as the argument could be extended to cover cash as well; (7) goodwill, trade-marks and patents. It may be argued here that these assets are of a doubtful nature and may have very little trading return. Since it is the normal practice to write them off as rapidly as possible then this may be a justification for excluding them from the assets.

It seems to me that the term capital employed must be taken to mean the capital actually in use. If it is intended to mean capital available then clearly investments, tax reserve certificates and treasury deposit receipts should be included.

Again, it must be admitted that differing policies of stock valuation and depreciation appreciably affect the resulting calculation. However, this figure is of such value in measuring business efficiency that it should be clarified, and, within the obvious margins of the difference, applied to various businesses for comparative purposes.

Any consideration of capital employed must also include net worth. Net worth should be defined as the real worth of the business to the proprietors, i.e. the equity value of the ordinary shares.

Once capital employed is determined, it is a simple step to assess the net worth. All borrowed capital of any kind must be excluded. Bad debts and stock losses may be deducted to the extent that they are known. If these provisions, however, are in the nature of general reserves they should not be deducted.

In this country and abroad, terms 'capital employed' and 'net worth' are used indiscriminately and without clear definition. It is most important that this confusion should be cleared between these two terms.

I hope that some clarification will come out of this correspondence being conducted in your columns.

Yours faithfully,

Hitchin, Herts. J. H. WILSON, A.C.W.A.

French for 'True and Fair View'

SIR, – My best thanks are due to your many correspondents for their very helpful suggestions. If none of them is so completely satisfactory as to be indisputably better than the others, my humble suspicion is that the translation of 'true and fair' into English is not very easy, either.

A glass of Muscadet whenever he cares to claim it to 'Langue Dans Joue' whose translation into the language of that part of France is at least overwhelmingly 'true and correct'.

I am, Sir,

Yours faithfully,

R. A. BOURNE-PATERSON, M.A., A.C.A.

Brussels.

[Mr Bourne-Paterson's original letter, written from London, appeared in our issue of October 13th last. – Editor.]

The Complete Answer

SIR, – I think I had the complete answer last week.

I had completed the accounts of a large women's organization, and was rather doubtful as to how the person I was with would deal with the queries which might be raised at the general meeting of members.

'How will you answer', I said, 'if you are asked a question on the accounts and cannot reply?'

'Oh, that is quite simple,' she replied. 'I shall say to the questioner, "If *you* would like this job, you had better come up here and do it!" '

Yours faithfully,

Evesham, Worcs. WILFRED TULLETT.

THE ROYAL COMMISSION

EVIDENCE OF THE BRITISH BANKERS' ASSOCIATION

The Royal Commission on the Taxation of Profits and Income met in public again on November 22nd and 23rd, in the hall of the Society of Incorporated Accountants and Auditors, for the purpose of hearing oral evidence from representatives of the British Bankers' Association and from Mr H. Nutcombe Hume, C.B.E., M.C., Chairman of the Charterhouse Group.

Resignation of Lord Cohen

The proceedings were opened by an announcement by Mr J. Millard Tucker, K.C., that owing to Lord Cohen's appointment as a Lord of Appeal in Ordinary, the duties of which took precedence, Lord Cohen had been obliged to relinquish his chairmanship of the Commission. Pending the appointment of a new chairman, Mr Millard Tucker had been asked by his colleagues to take the chair.

British Bankers' Association

Sir William H. Coates (Vice-chairman, Westminster Bank), accompanied by Mr A. H. Ensor (Chief General Manager, Lloyds Bank) and Mr W. Manning Dacey (Economic Adviser, Lloyds Bank), then gave evidence arising out of the memorandum submitted by the British Bankers' Association to the Commission and which was reviewed in this journal on August 4th last. He agreed with Mr Millard Tucker that the depletion of the reserves of industry, complained of in the memorandum, was only partly the result of taxation. He maintained that apart from the harmful effects of high tax rates, the tax itself was levied on more than the true profit because its computation did not allow for the increased costs of maintaining the stock and fixed assets. A trader sold two things, the goods he had purchased, and with them a perhaps minute proportion of his fixed capital which had been expended in performing services in relation to those goods. The profit arising through inflation in relation to the goods or raw material held was purely artificial; it had to be ploughed back to buy new goods at the inflated prices. The acting chairman asked what part of the profit shown by the accounts was to be regarded as not real profit in times of inflation and Sir William suggested that an index number could be applied for each industry; he had not applied his mind to the specific computation of the excess profit. When the acting chairman pointed out that if the business receipts came in in depreciated pounds, the business outgoings and tax were paid in the same units, Sir William said that he was concerned with the loss in real physical capital. It was the use of money which gave rise to the problem, when it depreciated it automatically inflated the apparent value of the closing stocks which in turn led to increased tax which took away part of the real capital. As to the specific remedy for dealing with this problem, that was a matter for economists and tax experts.

Depreciation of Fixed Assets

Turning to the question of fixed asset replacement, Mr Millard Tucker said there seemed to be two main suggestions for dealing with the rise in prices. Under the first, the assets would be written up to the present-day value, then written down by the amount of their past life, so giving a new written-down value for the purpose of income-tax allowances from now on. The other method was to double the present income-tax written-down value and calculate allowances on that. Which method did witness advocate? Sir William said that the British Bankers' Association had not regarded the invitation to give oral evidence as one which suggested that it should provide solutions for the problems set out in its memorandum. It recognized that broad compromises would be necessary but was not qualified to settle the details. However, if depreciation allowances were increased by reference to increased replacement cost, there should be no set-off to take into account the increased value of the plant, in money terms, to the trader, such a set-off would mean confusing the real with the nominal. Even with plant which would not require renewal for many years, and the allowing for the fact that all repairs and also renewals of small parts would be deductible, he still thought that the wear and tear allowance should be stepped up to reflect the present cost of replacing that plant. Of course it would not be practicable to make a separate adjustment for each item, there would have to be a broad method of approach.

High Taxation the Real Trouble

Mr Millard Tucker, after quoting from the Association's memorandum, said was it not inherent in the Association's complaint that taxation was in any event too high and that higher depreciation allowances alone would not wholly cure it? Sir William agreed.

Mr Millard Tucker said that there was not much real evidence that high taxation restricted enterprise, so much depended on personal circumstances. Sir William said that people in regular employment who did extra work tended to do it for a different employer so as to avoid P.A.Y.E., that was the same as refusing to work overtime at all. Mr Millard Tucker did not think these were the same; one was evasion, the other was avoidance.

Risk-bearing and Saving

The acting chairman referred to paragraph 22 of the Association's memorandum, which dealt with the reduction in the supply of risk-bearing capital and made the point that on the one hand the weight of taxation hampered the accumulation of reserves for development while on the other the discriminatory taxation of dividends had induced companies to rely on loan capital. He asked if the banks had evidence to support this, and Sir William said they believed they saw evidence of a reduction in the supply of capital. The fact that heavy taxation prevented saving was only partly the reason.

Inflation

Mr Kaldor questioned the Association's argument that it was because of taxation that industry was in a less liquid position than in 1946. That was a year when physical assets would naturally be run down because of the war, with liquid assets correspondingly higher. It would be more satisfactory to take 1938

figures if they were available. He made the point that debenture interest and similar charges paid by industry did not increase in times of inflation. Sir William said that the entrepreneur was more important than the man who merely lent money because it was upon the entrepreneur that our productivity depended. Anything which made it more difficult to maintain the earning power of the United Kingdom in this competitive world was to be deplored.

Mr Kaldor said that inflation usually went with high profits, but witness replied that this was in money only and in any case the Inland Revenue took a large proportion. Turning to asset replacement Mr Kaldor said that taking initial allowance into account, the total allowances actually given for tax purposes far exceeded the rise in prices. Witness replied that this did not take the increase in production into account; the Inland Revenue report and the White Paper on national income both showed the tax allowances for depreciation to be inadequate. He could not say whether a linking of the concession sought for with a corresponding revaluation of debtors and debentures would nullify the concession. He considered the trader to be the more important member of the community; those who lent at fixed interest deliberately chose the risk of a fall in the value of money.

Real Capital and Bank Loans

Mr Hicks, like Mr Kaldor, doubted the figures in the Association's memorandum as proving that inflation and taxation were the cause of the decline in liquidity since 1946. He thought that the figures for 1949 and 1950 were nearer to normal than those for 1946. Adverting to Sir William's argument that it was misleading to look at current money values of business assets in arriving at its taxability, Mr Hicks asked whether, when a bank was considering making an advance to a business, it looked at real capital or at current money value. Mr Ensor said it was unusual to lend on capital, it was more usual to base the loan on the profits.

Mr Crick said it was generally agreed that taxation was now used not only to raise revenue but also as an instrument of economic policy. Did witness regard that trend as a healthy and welcome one or one to be deplored – looking at it not as a banker but as an economist. Sir William said it was to be welcomed in principle but deplored in its application; he denied being an economist.

Stock Valuation

Mr Carrington asked, in relation to inflation of prices of stock-in-trade, whether witness thought that the method available in the United States would be beneficial here. It was essentially a base-stock method with a provision for 'involuntary liquidation' and could be said to be a combination of LIFO and base stock. Witness said he did not fully understand the system. Mr Carrington said that the base-stock method had been accorded to the cotton trade in the 1914–18 war, but after that war they had asked the Revenue to drop this method – perhaps unwisely as matters had turned out. Suppose current money prices of stock fell sharply below the basic value, should the trader have an allowance on that account? Witness thought not, since the real value would be the same. Asked whether he would, as a banker, accept accounts on such a basis, witness said he would if it was official policy to have accounts on such a basis. Mr Carrington pointed out that if the base stock was sold out at the low monetary figure, the bank which had made a loan on it would still expect to be paid in full. Did not that mean having two different bases on accounts, one for the tax-gatherer and one for creditors? Sir William said he was faced with the conclusion that both accounts would be true. Asked which accounts he would present to the shareholders he said that current prices would have to be shown but with explanatory notes. It was not possible to explain everything to shareholders – profits tax computations and balancing charges were examples. He undertook on behalf of the Association to look into the American method referred to.

MR NUTCOMBE HUME'S EVIDENCE

On November 23rd, Mr H. Nutcombe Hume, C.B.E., M.C. (Chairman of the Charterhouse group), gave evidence arising out of a memorandum submitted by him. He was accompanied by Mr W. R. L. Warnock.

Mr Millard Tucker thanked Mr Hume for the helpful figures which had been included in his memorandum. So few witnesses, he said, supplied figures to explain or strengthen their submissions. Witness had no doubt read the Millard Tucker report which suggested that the real trouble facing industry was not the inadequacy of allowances but the high rates of tax, but clearly witness thought that high rates of tax were not the source of the trouble so much as an uneconomic method of accounting for tax purposes. He then asked for further explanations of the figures accompanying Mr Hume's submission, figures which showed how, on certain assumptions, a business which continued to make steady profits had nevertheless insufficient cash to replace capital assets when they wore out.

Profit Margins and Inflation

Mr Kaldor asked why, when the turnover in the example stated was increasing by 10 per cent each year, the trading profit was assumed to continue at a fixed percentage of the turnover. Was it not true to say that in the conditions of continuous inflation postulated in the example, profit margins tended to rise. In those conditions, traders who held stock made fortuitous profits because the value of stock held was rising all the time. Mr Warnock said this was true only where the rate of inflation increased. Mr Hume said that in real life conditions were not so easy for the trader as Mr Kaldor assumed. The ideal solution was to put prices up to replacement cost immediately on any increase, but competition prevented that.

Mr Hicks and the College Wine

Mr Hicks cited the example of wine supplied to a college by its wine fund at a price to cover cost. In times of rapidly rising prices the economists in the college had difficulty in persuading their colleagues in control of the wine fund to put up the prices quickly enough to keep stocks up. Perhaps business men were hampered by a similar reluctance. Mr Hume repeated that competition kept prices down, as had recently happened in the textile trade. Mr Kaldor asked what then was inflation but too much money chasing too few goods.

THE LEEDS, BRADFORD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

ANNUAL DINNER IN LEEDS

The annual dinner of The Leeds, Bradford and District Society of Chartered Accountants was held at *The Queen's Hotel*, Leeds, on Thursday, November 22nd, 1951, with Mr Harold Bolton, F.C.A., President of the Society, in the chair. Members and guests, numbering over 290, were received by Mr Bolton and by Mr Charles W. Boyce, C.B.E., F.C.A., President, The Institute of Chartered Accountants in England and Wales.

Among the guests were Lieut.-Col. F. Eric Tetley, D.S.O., T.D., Lord Mayor of Leeds; Mr T. B. Simpson, B.A., LL.B.; Mr C. U. Peat, M.C., M.A., F.C.A., a member of the Council of the Institute; the Rev. Canon A. S. Reeve, M.A., Vicar of Leeds; and

Messrs A. M. Bentley, F.C.A. (*President, Bradford and District Chartered Accountants' Students' Association*); T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*); Professor A. J. Brown, M.A., D.PHIL.

Messrs Roland Davy, F.A.I. (*Chairman, Yorkshire Branch, Chartered Auctioneers' and Estate Agents' Institute*); G. D. F. Dillon, B.A., F.C.A. (*President, London and District Society of Chartered Accountants*); Derek du Pré (*Editor of 'The Accountant'*); E. Emmerson, F.S.A.A., F.C.W.A. (*President, Incorporated Accountants District Society of Yorkshire*); John Emsley, O.B.E. (*President, Bradford Chamber of Commerce*).

Messrs Wilfrid B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); K. G. M. Harding, B.A., F.C.A. (*President, Liverpool Society of Chartered Accountants*); L. H. Heaton (*Chairman, Leeds and District Centre, Institute of Bankers*); W. B. Lindley, F.C.A. (*President, Leeds and District Chartered Accountant Students' Association*); A. S. MacIver, M.C., B.A. (*Secretary of the Institute*); H. Mathieson (*President, Insurance Institute of Leeds*).

Major Raymond F. Quirke, O.B.E., F.R.I.C.S. (*Chairman, Yorkshire Branch, Royal Institute of Chartered Surveyors*); Messrs W. J. E. Ringquist, J.P., F.C.A. (*Chairman, North Yorkshire and South Durham Branch of the Society*); G. B. Robins, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); C. H. W. Sansom, A.C.A. (*Honorary Secretary, North Yorkshire and South Durham Branch of the Society*); E. Duncan Taylor, F.C.A. (*Member of the Council of the Institute*); Donald W. Wade, M.P., LL.B. (*President, Leeds Incorporated Law Society*); A. R. Walton, B.COM. (*Honorary Secretary, Leeds and District Chartered Accountant Students' Association*); G. V. Williams (*H.M. Principal Inspector of Taxes, Leeds*); H. Cecil Wood, F.C.I.S. (*President, West Yorkshire Branch, Chartered Institute of Secretaries*).

The Practical Man and the Accountant

A toast to 'The Lord Mayor and the City of Leeds' was proposed by Mr C. U. Peat, M.C., M.A., F.C.A., a member of the Council of the Institute. In the course of his reply, Lieut.-Col. F. Eric Tetley, D.S.O., T.D., Lord Mayor of Leeds, said that chartered accountants in the City had to deal with the accounts of eighty or more different trades.

'Without your help, your guidance, and sometimes your interference,' (laughter) 'we might not be able to get on as well as we do.

'There has been, in the past, conflict between the practical man like myself and the accountant. The practical man often describes accountants as "an unnecessary evil" – partly because he does not understand all that figures imply – and he gets exasperated by what he has and has not to do.

'I think accountants sometimes think that a practical man is too stupid to understand anything about accounts, and therefore that the ordinary man is not much good at practical matters either. I am glad to think, however, that this conflict has somewhat abated, and that differences would be removed entirely could a profession such as yours only do more to ensure that accounts are made more useful to the practical man and his requirements.' (Hear, hear.)

'I would suggest that a system be devised by you for all manufacturing companies, so that the accountants produce at regular intervals – and not too distant intervals – accounts and figures which can be clearly understood by the management of the business.' (Applause.)

Cost Accounts and Book-keeping

'I also think that some method might be devised to make those mysterious things called "cost accounts" of a firm, a part of the book-keeping system of the business.

'As a layman, it would be better for all concerned if the professional accountant would work in perfect harmony with the practical and technical side of the business.

'In spite of all this, I am the first to acknowledge the great debt that we owe to the profession of chartered accountants – we bow to them, and we only hope that the difficulties that you produce for us poor laymen may be removed, and that not only we, but also those thousands and thousands of small shareholders, may benefit from a little more understanding of each other.' (Applause.)

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr T. B. Simpson, B.A., LL.D., who said:

'Your Institute is a national Institute. We know full well it is in fact part of a very large and necessary function on which British industry and commerce is founded and carried on today. We are proud and grateful for the way in which members of your profession discharge their duties.' (Applause.)

Replying to the toast, Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, said that during the sixteen years in which he had served on the Council of the Institute he had seen many changes in its character and the extent of its activities; one of the most important steps taken by the Council was the formation of the Taxation and Research Committee. He referred to various memoranda prepared by this committee and to the recommendations on accounting principles. The preparation of evidence for submission to the Royal Commission was a vitally important matter calling for an enormous amount of thought and research. The constructive submissions which had been made will be supplemented by oral evidence from representatives of the Institute.

Mr Harold Bolton, F.C.A., President of the Society, proposed the toast of 'Our Guests', and paid a very high tribute to the work done by the Secretary of the Society, Mr G. N. Hunter, F.C.A. The Rev. Canon Reeve, M.A., Vicar of Leeds, responded.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

DINNER IN DUBLIN

Mr H. E. A. Addy, F.C.A., of Belfast, President of The Institute of Chartered Accountants in Ireland, presided at a dinner of the Institute held in Dublin on Monday, November 19th, 1951, attended by over 175 members and guests, among whom were Mr T. B. Robson, M.B.E., M.A., F.C.A., Vice-President, The Institute of Chartered Accountants in England and Wales; Mr Erskine H. Childers, T.D., Minister for Posts and Telegraphs; Mr M. P. Rowan, President, Dublin Chamber of Commerce; Mr Roger Greene, President, The Incorporated Law Society of Ireland; and

Dr J. P. Beddy (*Chairman, The Industrial Development Authority*); Messrs G. Bowen (*Chairman, Chartered Institute of Secretaries, Eire Branch*); G. Brock (*President, Institute of Bankers in Ireland and a Past-President of the Institute*); D. Butler (*President, Dublin Stock Exchange*); Derek du Pré (*Editor, 'The Accountant'*); E. M. Fitzgerald (*Law Agent to the Institute*).

Messrs N. C. Hartnell (*Chairman, Association of Advertising Agencies*); F. E. Heron (*Deputy-President, Insurance Institute of Ireland*); The Hon. Mr Justice Lavery (*Chairman, Prices Advisory Body*); Miss B. K. Lawlor (*Secretary-Librarian, Belfast Society of Chartered Accountants*); Messrs S. Leydon (*Secretary, Department of Industry and Commerce*); J. Love (*Hon. Secretary, The Society of Incorporated Accountants in Ireland*); M. F. MacCormac (*President, The Association of Certified and Corporate Accountants, Irish Branch*); A. S. MacIver, M.C. (*Secretary, The Institute of Chartered Accountants in England and Wales*).

Messrs O. J. McWilliams (*Chief Inspector of Taxes*); E. Mullen (*President, The Institute of Cost and Works Accountants, Irish Branch*); R. P. Rice (*Chairman, The Revenue Commissioners*); The Hon. Mr Justice Shannon (*President, the Circuit Court*); Mr W. L. White (*President, The Society of Incorporated Accountants in Ireland*).

An Unselfish Sentiment of Sincere Goodwill

After the toast of 'Ireland' had been honoured, the toast of 'Prosperity to Ireland' was proposed by Mr T. B. Robson, M.B.E., M.A., F.C.A., Vice-President, The Institute of Chartered Accountants in England and Wales, who referred to the principal industries and exports of Ireland. He continued:

'Prosperity is indivisible and international. Men and nations cannot live to themselves alone. The economic interdependence of humanity and of those human creations which we call states has never been more clearly exhibited than it is today.

'The prosperity of Ireland is the wish of us all. It is an unselfish sentiment of sincere goodwill; more than that, it is a realization that prosperity and happiness for the people of Ireland mean prosperity and happiness for many elsewhere. We shall applaud your efforts and wish you well in them.' (Applause.)

Mr Erskine H. Childers, T.D., Minister for Posts and Telegraphs, replied.

The Accountant and the Public

The toast of 'The Institute of Chartered Accountants in Ireland' was proposed by Mr M. P. Rowan, President, Dublin Chamber of Commerce. In the course of his reply, Mr Addy said of the position today:

'The ever-increasing body of legislation affecting commerce and industry and the growth and complexity of problems relating to industry and finance demand a greater degree of competence in the public accountant than ever before. Upon his skill and knowledge may depend, for good or ill, the fortunes of his client or the public at large, with far-reaching consequences.' (Applause.)

The Institute, Mr Addy continued, quite rightly sets great store upon the training and ultimate qualification of the articled clerk, and to that end a very high standard is set in their examinations 'but the responsibility for choosing a suitable type of candidate rests upon the principal'.

Work of the Institute

The administrative work of the Institute, he said, has grown vigorously with the increase in membership, in influence, and in responsibility.

'Our Belfast and Dublin Societies are most valuable adjuncts of the Institute. These societies arrange programmes of lectures, classes and debates for the students, and, generally, do a great deal to promote the interests and training of the articled pupils. As an offshoot of the Belfast Society, we have also an industrial group by which a liaison is maintained between the profession and members holding important executive appointments in industry and commerce.

'The Institute has now a permanent home at Fitzwilliam Place, of which the members may well be proud.' (Hear, hear.) 'Amongst the activities to which attention is drawn are: representation on the Co-ordinating Committee in London; Mr John Bailey has done invaluable service in that connexion and I believe his work there has done much to enhance the prestige of the Institute and also to strengthen the friendly relations subsisting between us and the sister institutes across the water and the Society of Incorporated Accountants, some of whose representatives we are glad to have with us tonight.' (Hear, hear.)

'During the past year, there have been several developments of interest. A joint committee from the Belfast Society and the Incorporated Law Society of Northern Ireland submitted an important memorandum to the Northern Government upon the incidence of estate duty in the case of controlled companies, while another sub-committee of that Society, under the sponsorship of the Institute, has prepared a most valuable memorandum for submission to the Royal Commission on Taxation. The Government of the Republic, also during the year, appointed a Commission to report upon company law reform, and on this Commission your Institute is represented.' (Applause.)

Mr Addy concluded by paying a tribute to Mr Wm. Edmiston Crawford, F.C.A., Dublin, Secretary and Treasurer of the Institute, and to Mr Hugh Stevenson, F.C.A., Belfast, Joint Secretary of the Institute.

The toast of 'Our Guests' was proposed by Mr J. F. Dempsey, B.COM., A.C.A., General Manager of Aer Rinta Teoranta and Aer Lingus Teoranta; Mr Derek du Pré, Editor of *The Accountant*, and Mr Roger Greene, President of the Incorporated Law Society of Ireland, replied.

An informal toast to Mr Addy was proposed by Mr P. Butler, F.C.A., Vice-President of the Institute; Mr Addy, who was greeted with acclamation, replied, and expressed appreciation of the work of Miss B. K. Lawlor, B.A., T.C.D., Secretary-Librarian, Belfast Society.

WOMEN CHARTERED ACCOUNTANTS' DINING SOCIETY

DINNER IN LONDON

The Women Chartered Accountants' Dining Society held a dinner at the Hotel Rubens, London, on Saturday, November 24th, 1951, at which Miss G. L. Loring, B.A., A.C.A., Chairman of the Society, presided. Over fifty members and their guests attended and were received on arrival by Miss Loring and Miss F. M. Flew, F.C.A., Vice-President of the Society.

Among the guests were:

Messrs Charles W. Boyce, C.B.E., F.C.A. (*President, The Institute of Chartered Accountants in England and Wales*); W. S. Carrington, F.C.A.; Derek du Pré (*Editor, 'The Accountant'*); Alan S. MacIver, M.C. (*Secretary of the Institute*); The Rev. J. C. Pollock; Miss L. S. Sutherland, C.B.E. (*Principal, Lady Margaret Hall*); Sir Robert Watson-Watt, C.B.; Mr E. F. G. Whinney, M.A., F.C.A.

Cross-fire between Chartered Accountants and Economists

The toast of 'The Institute of Chartered Accountants' was proposed by Miss L. S. Sutherland, C.B.E., Principal of Lady Margaret Hall, who said:

'Until very recently I could not have been in a state of greater ignorance of your profession, but since I have been sitting on the Royal Commission the situation has slightly changed.' (Laughter.)

'I see before me a distinguished gathering of experts of this most expert and accomplished profession – I feel alarmed. . . .

'On being a member of the Royal Commission, not only is one exposed to the wiles of the chartered accountant but one finds that a cross-fire is kept up by chartered accountants and economists whenever the two different experts come into contact – I may say the results are alarming. (Laughter.)

'It is, I think, rather unfair to suggest that chartered accountants throw darkness and confusion on the situation when it is well known that your profession sheds brightness and light on *any* situation with which it comes in contact. . . .

'The trouble is that chartered accountants are apt to put before us matters of a profoundly complicated nature. If one looks at them from the point of view of a historian and from the view of the human mind most results and complicated facts that surround us are able to be simplified – one of these being the art of perspective and the art of account keeping by "double entry" ' (Laughter.)

Grandeur and Beauty of Book-keeping

'This art was, I understand, alleged to have been first known to the Romans who, unfortunately, could not make use of it. It was then taken up by the Arabs and finally came home to roost with the Italians of the Middle Ages. The Italian writers of those times found accountancy a source of illumination to them – we find people writing pamphlets and books of guidance on the never-dying art of accountancy, and "the grandeur and beauty of book-keeping, only comparable with the music of the spheres".' (Laughter.) 'We find that all this caused great excitement, and suggestions followed that the minds of men would be greatly improved by the study of this great art of accountancy.' (Laughter.)

Women in the Profession

Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, replying to the toast, said:

'Women are now playing an important role in the work of the accountancy profession.' (Hear, hear.) 'Prior to the First World War, with the exception of secretaries and typists, it was the exception to find women on the audit staff. But with the severe depletion of staff for service in the armed forces it became necessary to enlist the services of women clerks. They did magnificent work and after a few initial teething troubles our clients overcame their prejudice and became accustomed to the routine work of the audit being undertaken by them.

'The Second World War gave the women another opportunity and they acquitted themselves well. Women are taking a prominent place in medicine, in the law, in architecture – in fact my wife always contends that no house should be built without a woman being consulted in the planning of it' (Laughter) ' – and other kindred professions, and there is no reason why they should not do so in accountancy.

'I hope that more and more of them will adopt the profession as a career. We now come across women Inspectors of Taxes – a very subtle move on the part of the Inland Revenue – ensuring that when it comes to an argument the dice are very heavily loaded against the poor male practitioner.' (Laughter and applause.)

Astronomy for Accountants

A toast to 'The Learned Societies' was proposed by Miss Loring who said that it was the custom of the Society, while remaining purely social, each year to invite distinguished guests from some other profession or calling, the President of their own Institute, and other well-known chartered accountants. Saying that their guests were all busy people, Miss Lo[illegible] added:

'Accountants are of necessity much concerned with detail and I have sometimes thought that in order to keep life in better perspective it would be better if we all took up some different form of study – such as astronomy.' (Hear, hear.)

Replying to the toast, Sir Robert Watson-Watt, C.B., wondered why he should have been 'asked in person to so charming a gathering as this', and after trying several hypotheses (including 'my own double-entry name') it occurred to him

'that you had invited me as an example of that poor sap – the dying race of company directors who are neither chartered accountants nor lawyers.' (Laughter). 'I should feel at home as I am now accustomed to finding myself a solitary soul in company with chartered accountants and lawyers.

'When I first took the daring step of joining the board of a joint stock company, I consulted an economist and I was interested to discover by this means certain facts about accountancy. One fact was that almost all businesses – even very small ones – must employ an accountant, if only to solve one problem – that being how to satisfy the income tax authorities.' (Laughter.)

The toast of 'The Guests' was proposed by Miss Margaret Fox, A.C.A., and Mr W. S. Carrington, F.C.A., responded.

NOTES AND NOTICES

Personal

MESSRS SHARP, PARSONS & CO, Chartered Accountants, of 120 Colmore Row, Birmingham, 3, announce with regret the sudden death on November 16th of Mr J. S. TROPMAN, F.C.A., who became a partner in the firm in January 1923.

MESSRS WAKEFIELD, DODD & THORNELY, Accountants, of 3 Stanley Street, Chester, announce that they have taken into partnership Mr JACK GROOME, A.C.A. The name of the firm and the address remain unchanged.

Obituary

SIR HENRY THOMAS MCAULIFFE, F.C.A.

We have learned with regret of the death, at the age of 83, of Sir Henry McAuliffe, F.C.A., at his home at Eastbourne.

A member of the Council of The Institute of Chartered Accountants in England and Wales from 1926 to 1937, and chairman of the Parliamentary and Law Committee of the Council from 1933 to 1936, Sir Henry McAuliffe was admitted an Associate of the Institute in 1892 and was elected a Fellow in 1907. He founded the firm of McAuliffe, Davis and Hope, Chartered Accountants, which was later amalgamated with Messrs Turquand, Youngs & Company, and for over thirty years was chairman of Central News Limited.

Sir Henry was a former member of the Court of Common Council of the City of London as well as an alderman of the London County Council; he was a past-master of the Turners' Company. In 1921 he was elected chairman of the coal and corn and finance committee of the Corporation of London and was knighted at the end of his term of office in 1928.

A member of the governing boards of many professional and educational bodies, Sir Henry McAuliffe was chairman of the special committee set up to receive President Lebrun of France at Guildhall in 1939.

London and District Society of Chartered Accountants

The second address to Society members in the series on prospectuses will be on December 19th, when Sir Sam Brown will speak on the 'Lawyer's approach'. The lecture will commence at 6 p.m. in the Hall of the Chartered Insurance Institute, Aldermanbury, EC2.

In Parliament

OVERTIME EARNINGS: TAX

Mr G. JEGER asked the Chancellor of the Exchequer whether he will make earnings on overtime work exempt from income-tax.

Mr OSBORNE asked the Chancellor of the Exchequer if, in view of the need to increase coal production, he will introduce legislation to make possible as a temporary experiment the payment of all overtime or extra production by the coal face workers free of taxation; and review the experiment at the end of six months in the light of experience.

Mr R. A. BUTLER: The suggestion that overtime pay should be exempt from tax has been considered on several occasions in the past. It has hitherto proved impossible to find a method which is both fair and practicable. The question is, however, within the terms of reference of the Royal Commission on the Taxation of Profits and Income, to which some evidence has been submitted. I do not underestimate the importance of finding ways and means of encouraging extra effort.

Hansard, Nov. 20th, 1951. Written Answers, Col. 22.

COMPANIES: PROXY FORMS

Mr JOHN ARBUTHNOT asked the President of the Board of Trade whether he will take action to ensure that proxy forms sent out by companies are so framed that they give the shareholder the opportunity of indicating which way he wishes to vote; and, when there is more than one resolution, that the shareholder can vote for one resolution and against another.

Mr P. THORNEYCROFT: A form of two-way proxy is set out in paragraph 71 of Table A of the Companies Act, 1948, but its use is optional and we have no power to insist on its adoption. The Cohen Committee, on whose recommendations the Act is based, thought it advisable not to deal with this matter by legislation but to leave it to be regulated by the Stock Exchange.

The Stock Exchange has for some years imposed suitable requirements on companies seeking permission to deal, but these requirements apply only to companies which have applied for such permission since the requirements were imposed and the company which I understand my hon. friend has in mind is not one of them. Where the two-way proxy form is used, the practice normally is to take account of the point referred to in the last part of the question.

Hansard, Nov. 22nd, 1951. Oral Answers, Cols. 557–8.

JOHN FOORD & COMPANY
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VALUERS AND ASSESSORS
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Three per cent Defence Bonds, Second Issue: Conversion Offer

The following announcement has been made by the Treasury:

The following conversion offer will be made to holders of 3 per cent Defence Bonds purchased between March 1st, 1942, and August 31st, 1942, and therefore maturing for repayment between March 1st, 1952, and August 31st, 1952.

These holders will be invited to continue their bonds until September 1st, 1952 (the next interest date): on that date they will be paid a full six months' interest at the rate of 3 per cent per annum and the maturity premium of £1 per cent, and their bonds will be exchanged into the same amount of 3 per cent Defence Bonds (Conversion Issue) repayable at par ten years from the date of exchange. There will be no break in the holders' encashment rights.

Interest on bonds for which this offer is not accepted will cease on the tenth anniversary of the date of purchase.

The full conversion terms will be given in the prospectus which will be issued to individual holders on November 30th, 1951, together with forms of request for conversion and forms of authority for repayment for the use of holders who do not accept the conversion offer. The list of acceptances of the conversion offer will be closed on January 15th, 1952.

Note. – Three per cent Defence Bonds, Second Issue, were on sale between September 1st, 1941, and August 31st, 1942. If not previously encashed the bonds are repayable at £101 for each £100 nominal value ten years from the date of purchase. An offer of conversion has already been made to holders of these bonds purchased between September 1st, 1941, and February 28th, 1942. It is now proposed to make a similar offer to holders of bonds purchased during the subsequent six months. The amount of bonds at present outstanding to which this offer will apply is about £61 million.

Census of Production for 1951

An Order indicating the scope of the Census of Production to be taken in 1952 for the year 1951 has been made by the Board of Trade.[1] Undertakings producing coal, gas, electricity, oil shale, crude or refined petroleum or shale products are exempted from making Census of Production returns to the extent to which they supply the necessary information to the Minister of Fuel and Power.

The Board also announce that they have appointed the statutory Advisory Committee to advise them when considering the preparation of forms and instructions for the Census of Production to be taken in 1953.

The membership of the committee is as follows: Mr J. Stafford (chairman), Professor R. G. D. Allen, O.B.E., Mr J. W. Beck, Sir Leonard Browett, K.C.B., C.B.E., Mr S. P. Chambers, Mr C. N. Gallie, Dr C. Oswald George, Mr W. A. B. Hopkin, Mr L. A. W. Jenkins, Sir Norman V. Kipping, J.P., Mr Philip Lyle, Mr T. A. Mitchell, Mr W. E. Parker, C.B.E., F.C.A., Mr C. E. Prater, Mr Kenneth Preston, Mr W. T. Winterbottom, C.B.E., Mr George Woodcock and Mr P. O. Young.

The Census of Production Office is at Neville House, Page Street, London, SW1.

[1] S.I. 1951 No. 1983, H.M.S.O., price 2*d* net.

Chartered Accountant Students' Society of London

'Articled Clerks' Parliament' will be held at 5.30 p.m. on Tuesday next, December 4th, under the chairmanship of Mr E. G. Turner, M.C., F.C.A., of Manchester. A team consisting of a principal, a newly-qualified accountant and two articled clerks will assist the chairman in opening the discussion of subjects brought before the meeting. Members are asked to raise for consideration any matters affecting conditions of service under articles, the Students' Society, or the profession generally, but not queries arising out of text-book studies.

The meeting will be held at Winchester House, Old Broad Street, London, EC2.

SEVENTY-FIVE YEARS AGO

FROM The Accountant of December 2nd, 1876

Extract from 'Notes in Passing'

Anecdotes

We publish this week an interesting letter on the subject of anecdotes, which goes to prove that by drawing deductions and making inferences from the mere accidents of circumstance, the latter are often raised to a position of importance which they are wholly unqualified to sustain. Our correspondent instances a general opinion held that at first meetings resolutions are more often than not passed, by the aid of proxies, in favour of the debtor and against the interests of the creditors. This idea he substantially refutes by some statistics to which we direct the attention of our readers. The arguments used throughout the letter appear to be sound, and strengthen the view of those who would like to see an official audit of estates in liquidation, not so much because of any supposed need of preventing wrong-doing on the part of trustees, as to provide an answer to those adverse critics who now enjoy the privilege of making what allegations on the subject they please. Incidentally, too, such an official audit would be productive of advantage from the fact of its securing the collection and publication of valuable statistics.

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SHARE PREMIUM ACCOUNTS

A NEW section of the Companies Act, 1948, of special interest to accountants, has recently been judicially considered for the first time. It is Section 56, which deals with the issue of shares 'at a premium, whether for cash or otherwise', and requires the transfer to share premium account of 'the amount or value of the premiums.' The balance of this account has then to be treated as though it were paid-up share capital, with certain minor modifications.

In *Henry Head & Co Ltd v. Ropner Holdings Ltd* ([1951] W.N. 593) the plaintiff sought an injunction restraining the defendant from retaining some £5 million as a sum credited to share premium account, or treating it other than as a general reserve. The defendant had been incorporated in order to acquire two shipping companies by purchasing the shares in those companies and paying for them by an issue of its own shares. A valuation of the assets of the two shipping companies was procured from a firm of chartered accountants who advised that as the assets of one were somewhat more valuable than those of the other, it should declare and pay a capital profits dividend sufficient to bring about equality. The aggregate value of the assets of the two shipping companies, on the basis of the accountants' valuation, was then some £7 million, the aggregate issued capital being under £2 million. The defendant company acquired this issued capital and issued its own shares in payment on a £ for £ basis. Thus for shares of a nominal value of some £2 million it acquired assets of an admitted value of some £7 million.

The excess of £5 million, as reduced by expenses, was shown on the defendant's first balance sheet as 'capital reserve, share premium account (less formation expenses)', the shares in the two shipping companies being shown as assets at the value mentioned. In the consolidated balance sheet at the same date the share premium account was expressed as 'being the excess of the value of the net assets of subsidiary companies at the date of acquisition over the book value of the investments (less formation expenses)'.

MR JUSTICE HARMAN said that it was with a sense of shock at first that one heard that this transaction amounted to the issue of shares at a premium. Counsel for the plaintiff had argued that Section 56 applied only to premiums resulting from the excess value of the company's already existing assets over its issued capital and his lordship was attracted by that argument but he did not see his way to limiting the section in that way. He accordingly dismissed the action.

It is to be observed that the assets were valued at £7 million expressly for the purpose of the transaction and that the physical assets were valued without including anything for goodwill.

TAXING SCHEDULE D EARNINGS WHEN RECEIVED

THE LESLIE HOWARD CASE

THE case of *Gospel and Another v. Purchase*, which has now been finally decided by the House of Lords, raised once again that perennial question of income-tax law, 'What is income?' Although the facts of the case were relatively simple, the divergence of judicial opinion emphasized the difficulty of the question. The final decision and some of the *obiter dicta* raise implications of considerable importance.

The taxpayers concerned in the case were the executors of Leslie Howard Stainer, better known as Leslie Howard, the film actor who died in June 1943 as a result of enemy action. Until then he carried on his profession of film actor and producer, making contracts with film companies in respect of each individual film, under which the company became proprietor of the film and he was to receive various payments. His profits were assessed under Case II of Schedule D in accordance with the decision in *Davies v. Braithwaite* ([1931] 18 T.C. 198), on the 'earnings' basis. However, although Mr Howard's work was finished when the film was made, some of his earnings consisted of a share of the receipts or profits from its distribution and it was impossible to say in advance how successful a film would be, and therefore how much Mr Howard was likely to receive. The Case II assessments brought these prospective receipts into account only when they had been ascertained and become due.

Discontinuance by Death

When Mr Howard died in 1943 his profession was by that fact permanently discontinued. Subsequent receipts could not be the subject of further assessments under Case II for periods after his death. However, the Crown attempted to assess them on the executors under Case III, or alternatively Case VI, an attempt which has now wholly failed.

The receipts in question arose in respect of three films made by Mr Howard, 'Mr Pimpernel Smith', 'The 49th Parallel', and 'The First of the Few', which were governed by three contracts, the last one being slightly varied during his lifetime and the variation embodied in a new contract executed by his executors after his death. The receipts fell into four main divisions as follows:

(1) A proportion, payable monthly, of the receipts from the distribution of 'Mr Pimpernel Smith'.

(2) A proportion of 'the ultimate net profits' from 'The 49th Parallel'.

(3) A sum of £11,000, payable by five instalments, in respect of 'The First of the Few'.

(4) A proportion of the sums in excess of £11,000 received from time to time by the film company in respect of 'The First of the Few'.

Items (2) and (3) were, in common parlance, 'lump sums', item (3) being payable in instalments. Items (1) and (4) were made up of payments of a periodic and recurring nature.

'Annual Payments'

The Crown sought to assess items (1), (2), and (4) under Case III or alternatively under Case VI, and it sought to assess item (3), the £11,000, under Case VI only. Its contentions in relation to that item and also item (2), the proportion of 'ultimate net profits', were unanimously rejected by the Special Commissioners and all the Courts. As regards items (1) and (4), a majority of the Court of Appeal held that in the absence of any finding of fact by the Special Commissioners who heard the appeal, as to the precise nature of the periodical payments, they fell within the charge under Case III, 'Any . . . annual payment . . . payable . . . as a charge on any property of the person paying the same . . . or as a personal debt or obligation by virtue of any contract.' LORD JUSTICE SOMERVELL quoted in this connexion *Moss Empires Ltd v. C.I.R.* ([1936] 21 T.C. 264; 16 A.T.C. 178), and *Ryall v. Hoare* ([1923] 8 T.C. 521).

The House of Lords

In the House of Lords, LORD SIMONDS said that if the Crown's contention had not found favour with THE MASTER OF THE ROLLS and LORD JUSTICE SOMERVELL, he would have thought it unarguable. He quoted from the judgment of

MR JUSTICE ROWLATT in *Bennett v. Ogston* ([1930] 15 T.C. 374), to the effect that where a trader or professional man died or went out of business and there remained sums for goods formerly supplied or professional services owing to him, there was no question of assessing those receipts to income-tax. They were covered by the assessments made during the life of the business. LORD SIMONDS being satisfied that that was a correct statement of the relative principle, there was an end of the case. If, in all the circumstances it was not possible to bring the sums into account in the years when they were earned, the result was not to change their character but to show that some earnings might escape being taxed.

Reopening Past Computations

LORD SIMONDS' words as to the impossibility of bringing the payments into account in the year of earning raises interesting questions. On this topic, LORD JUSTICE JENKINS had said in the Court of Appeal:

> 'In the assessments made on Mr Howard under Case II of Schedule D no account was taken of the shares of receipts or profits prospectively payable to him under the various contracts, and as the amounts which might be received and the dates at which they might accrue were entirely unknown, it would obviously have been impossible to bring them into account. No valuation better than a mere guess could have been made of these prospective payments, and even if it had been practicable to deal with them in that way, the result would have been grossly unfair to Mr Howard in view of the incidence of sur-tax. Similarly, no account was taken of the . . . £11,000. . . .'

It is remarkable that not even the agreed lump sum was brought into charge when it was earned; the Revenue would not be likely to consider as a hardship the payment of sur-tax on a sum which was admittedly 'earned' in the year.

LORD JUSTICE SOMERVELL, on the same topic, said:

> 'Mr Graham-Dixon suggested at one time that the proper course was to tax the actor in the year in which the film was made on the estimated value of all his future rights. I think this would be both impossible and unjust. In the case of many films which looked like being successful and might be very successful, it would be quite impossible to estimate a figure. Nor can I see how sums not due could properly be brought in as professional earnings of the year in question. I do not think the argument is helped in any way by the *Woolcombers* case.'

It would have been interesting to hear further as to the relevance of the *Woolcombers* case (*Isaac Holden & Sons Ltd v. C.I.R.* ([1924] 12 T.C. 768)). There the company combed wool in 1918 for the Government on commission which was computed under a tariff fixed in 1917. In July 1918 the commission was increased retrospectively from the previous January 1st, subject to adjustment up or down after the end of the year. The final adjustment, made in 1919, consisted in a second retrospective increase. The company's argument against the inclusion in its profit for the year ended June 30th, 1918, of the second increase in commission, was rejected by MR JUSTICE ROWLATT. He held that this commission arose from the business in the accounting period in question. As the fact which showed that the books were wrong had occurred after they had been closed, they must be reopened and put right.

C.I.R. v. Gardner, Mountain and D'Ambrumenil Ltd

The *Woolcombers* case was applied in subsequent cases, culminating in *C.I.R. v. Gardner, Mountain and D'Ambrumenil Ltd* ([1947] 29 T.C. 69), which was concerned with commission earned by an underwriters' agent. The point at issue was whether commission was earned in year 1, when the risks were underwritten, or in year 3, at the end of which the accounts for year 1 were finally made up. The House of Lords held that the commission was earned in year 1 and it was held to follow that the commission must be assessed in that year, although it could not be ascertained until much later. VISCOUNT SIMON said that if the accounts for year 1 were made up before the amount of commission was ascertained, a provisional estimate of what the amount would be might be inserted in the first place and could be corrected, when the precise figure was known, by additional assessment or by a return of any excess within six years of the original assessment.

> 'The principle is to refer back to the year in which it was earned, so far as possible, remuneration subsequently received, even though it can only be precisely calculated afterwards.'

In this all the noble lords, including LORD SIMONDS, concurred.

In the light of the judgments in this case and *Gospel v. Purchase*, the law on the subject can hardly be regarded as being in a satisfactory state.

PROOF IN BANKRUPTCY FOR A LOAN FOR BUSINESS PURPOSES

by SPENCER G. MAURICE, Barrister-at-Law

AMONGST the debts the payment of which is deferred in the event of the bankruptcy of the debtor, is an advance which was made to the debtor when he was engaged or about to engage in business and which bears interest at a rate varying with the profits of the business.

The postponement of such a debt is provided for by Section 3 of the Partnership Act, 1890, but the statement in *Wace on Bankruptcy* (1904 edition, page 150) that

> 'where a person has authorized the employment of his assets in a business he cannot prove in competition with the creditors of the business in respect of the assets so authorized to be employed'

suggests that the repayment of a loan for business purposes may be deferred even though there is no agreement for the payment of interest on the basis of profits.

The recent case of *In re Meade* (*A Debtor*), *ex parte Humber v. Palmer* (*The Trustee*) ([1951] Ch. 774[1]) shows that the expectation on the part of the lender of some undefined benefit out of the successful outcome of the business adventure is sufficient to bring the debt within the category of deferred debts in the event of the borrower's bankruptcy.

In re Meade

The particular commercial adventure upon which the bankrupt in *In re Meade* embarked was a residential riding academy. The appellant advanced to the bankrupt a sum in excess of £7,000 which was used by the bankrupt for the setting up of the establishment, and she sought to prove as an ordinary creditor in the bankruptcy in respect of this sum. The appellant was not married to the bankrupt, but lived with him and looked after the domestic side of the academy. Moreover, in the brochure advertising the academy, she was referred to in terms which suggested that she was the wife of the bankrupt, and she was also described therein as one of the 'principals' of the establishment. There was no arrangement by which the appellant was to receive any defined share of the profits of the enterprise, nor was she a partner in it, but it was intended to provide her with a living and she thought of introducing her daughter into it if it was successful.

In lodging her proof, the appellant claimed that the loan was made to the bankrupt at his request and alleged that she had no control over the manner in which he used it. This proof was rejected by the trustee in bankruptcy. The appellant appealed to the Northampton County Court, where the County Court judge upheld the decision of the trustee in bankruptcy on the authority of *In re Beale, ex parte Corbridge* ((1876), 4 Ch.D. 246; 46 L. J. Bcy. 17) and dismissed the appeal. The appellant appealed to the Divisional Court of the Chancery Division (Romer, J., and Harman, J.).

The *Ratio Decidendi* of *In re Beale*

The bankrupt and the respondent in *In re Beale* had gone through a ceremony of marriage, but the respondent being the bankrupt's deceased wife's sister the marriage was (at that time) invalid. The Chief Judge in Bankruptcy, Bacon, C.J., allowed an appeal by the trustee in bankruptcy against the admission by the County Court judge of a proof tendered by the respondent in respect of money advanced to the bankrupt. Bacon, C.J., gave it as his view that a person who provided part of the capital of a business could not call for payment until the creditors of the business had been paid, and the Court in *In re Meade* considered that this was the true *ratio decidendi* in *In re Beale*.

In coming to the conclusion that he did, Bacon, C.J., referred to the principle to be found in *Ex parte Garland* ((1804), 10 Ves. 110) and *Ex parte Butterfield; In re Butterfield* ((1847), De G. 570), and recognized in *In re Childs; ex parte New* ((1874), 9 Ch. App. 508), that where money has been lent for employment in a business, such money must be exposed to all the hazards of the business and subject to the claims of its creditors.

In both *Ex parte Garland* and *Ex parte Butterfield*, part of the general estate of a testator was used, on the testator's authority, in a business which subsequently failed. It was then sought by the trustees, as representing the persons beneficially interested in the general estate, to prove in respect of the money used in the business in competition with creditors of the business. In each case the claim to prove was unsuccessful.

[1] Reported in 'Current Law' in *The Accountant*, July 28th, 1951, at page 89.

Sir John Romilly, M.R., in *Scott v. Izon* ((1865), 34 Beav. 434, 438), said, in reference to cases of this type, that they proved that, where

> '. . . the testator's money was employed properly in . . . trade and without any breach of trust, the amount so employed could not be proved against the estate of the partners, if they had become bankrupts, as it was not a debt of the firm, but merely capital brought into it.'

In *In re Childs* the Court decided a different point, namely, that where a man carried on two businesses in two different capacities – for example, one as executor and one as beneficial owner – and then became bankrupt, both the assets of each business on the one hand, and the creditors on the other hand, were to be treated as distinct from one another. In that case a husband carried on a business in which his wife had a share before their marriage and in respect of this share he covenanted that profits arising from it should be for his wife's separate use. He also carried on a second business entirely on his own account. On his becoming bankrupt the Court held that there must be a separate administration of the assets of the two businesses, and that if there was any surplus of the husband's share in that business in which his wife had an interest it must go over to the other estate.

In re Beale applied

In *In re Meade* Romer, J. (with whom Harman, J., agreed), expressed the view that *In re Childs* gave some support to Bacon, C.J.'s decision in *In re Beale*. His lordship thought that Bacon, C.J., had rightly applied in *In re Beale* the principles regulating cases where testators authorized the use of their general estate (whether the whole or part of it) in a business which was the subject of a specific disposition, and that those principles were properly applicable in the circumstances of the present case. It seemed to the learned judge that those circumstances – the appellant's failure to sue for the return of her money while the bankrupt was still solvent, and the fact that the enterprise into which the money went was meant to provide a living for the appellant and a possible occupation for her daughter – made it impossible to regard the appellant as a creditor; the advances represented her contribution to a business enterprise in which she had an interest.

Loans by a Wife

Having decided the case against the appellant on the same ground as that on which the County Court judge had decided it, it was unnecessary for the Divisional Court to express an opinion on two further contentions put forward by counsel for the trustee.

One of these was based on the provision made by Section 36 of the Bankruptcy Act, 1914, that the repayment of a loan made by a wife to her husband (or by a husband to his wife) for the purposes of his (or her) trade or business shall be postponed until after the payment of the ordinary creditors, and it was submitted by counsel that by representing herself to the world as the bankrupt's wife, and so subject to Section 36, the appellant could not now be heard to say that she was not so subject. Harman, J., said that he regarded the decision on the main point satisfactory, and pointed out that, had the appellant's claim succeeded, it would mean that a mistress was in a better position than a wife.

Harman, J.'s, words suggest that he did not think that the contention that the appellant had by her conduct made herself subject to Section 36 could have been upheld, had it been necessary to decide the case under that section, and, in view of the wording of the section, it is certainly hard to see how the appellant could have been affected by it. It is, indeed, a lamentable fact that it is, under the law of England, possible for a mistress to be in a more favourable position than a wife – or, more accurately, for a wife to be in a less favourable position than a mistress. A case in point is to be found in income-tax law, under which a wife's income is aggregated with that of her husband, whereas a mistress, of course, suffers no such disadvantage.

Holding out

The second contention of counsel for the trustee was based on the fact that the appellant had held herself out as a partner in the bankrupt's business and hence could not prove with the general creditors.

Section 14 (1) of the Partnership Act, 1890, provides that a person who, by spoken or written words or by conduct, holds himself out as a partner in a firm, shall be liable for the debts of the firm to those persons who have, on the faith of his so holding himself out, given credit to the firm.

Clearly, any moneys which such a person had put into the business would be applicable in satisfaction of claims by creditors who had given credit to the firm on the strength of the representations made, but it is not clear whether the lender could claim the balance (if any) then remaining in competition with other creditors, and *In re Meade* has not helped to clarify the position.

SOME REFLECTIONS ON INDUSTRIAL PROFITS–I

by H. P. FINN, A.C.A.

Introduction

BECAUSE the subject on which I am to address you is industrial profits, you will naturally expect me to make some reference to the effect on published profits of rising prices and the present inflationary situation. This is a matter on which differing views are strongly held, so that I am likely to arouse some disagreement whatever I say. Perhaps this will have the advantage of stimulating discussion later.

First we shall consider some problems connected with the *ascertainment of profit* for different purposes; and in so doing we shall touch upon the limitations which are inherent in profit statements in common with other accounting statements.

Secondly we shall consider what is implied in the notions of *reasonable profits* and *excessive profits* and will examine the suitability of the tests which are commonly applied in an attempt to set up fair standards of criticism in these respects.

Thirdly we shall touch on the *taxation of profits*.

In each of these three aspects of our subject we shall be forced to pay attention to the peculiar effects of rising price levels which are such a prominent feature of the economic landscape today.

You will appreciate that in the course of my remarks I shall be dealing with some matters which are politically controversial and I shall not be able to disguise my own opinions; but it is not my intention to place any violent or partisan views before you, and I hope that your agreement or disagreement with what I have to say will be quite unconnected with any political aspect of the matter.

The Ascertainment of Profit

Probably most laymen regard the ascertainment of the profit of an industrial enterprise as a simple and natural function of the accountant, offering no difficulty to one who by the exercise of his professional skill, can track down and isolate one single and definite money figure which alone can appropriately be called *net profit for the year*. In fact, however, the ascertainment of the profit of a company for any accounting period, say for a normal trading year, involves processes of estimation and assumption by a number of persons; and the figures which reflect these processes, or some of them, may later be proved incorrect. For instance, valuations of stocks and of work in progress; the counting, weighing or measuring of solid, liquid or gaseous materials; the estimating of the expected lives of wasting assets; the credit-worthiness of particular debtors; these, and many other things, involve the making of judgments which may be fallible. Moreover the breaking-up into convenient but artificial annual periods of what is essentially an ever-continuing process of trading involves judgments based, in many cases, on opinion rather than fact.

We know, too, that figures of profit are determined for different purposes according to different conventions. The taxable profit is not the same as the book profit. The book profit usually requires to be adjusted before it becomes a profit apt for inclusion in a prospectus. The profits upon which is calculated a percentage commission, payable to a company's servant under a service agreement, would not normally be the net profits shown by the audited profit and loss account of the company.

While ready assent may be given to the statement that figures of profit must vary according to the particular purpose for which they are required, it seems to be a fact that arguments are often founded on and conclusions drawn from a profits statement which – because of the particular convention in accordance with which it is drawn up – it is unable to support. Indeed this liability to misinterpretation is unfortunately inherent in all accounting statements. An accounting statement suitably prepared for one purpose or for showing one particular aspect of a transaction or situation is, in the same form, rarely well-suited for other purposes; and it is no small part of the skill of an accountant to prepare statements which, while showing clearly what they are intended to show, do not at the same time invite or encourage the reader to draw misleading inferences concerning matters not immediately relevant to the object in view. Unfortunately, an uninitiated reader may not always realize the significance of the statements or of the terms of art which they contain or the fact that the purpose which they are intended to serve is a limited one. Indeed, as regards annual accounts prepared under the Companies Act, it seems that the greater the precision with which the accounts are dissected for the supposed benefit of the members of the company, the more complex and technical do they become and the less intelligible to the layman.

The published profit and loss account of a company is however a statement which is intended to serve a definite purpose and I would like to consider what that purpose is and in what way it influences the nature of the statement and the ultimate figure of net profit for the year which it shows.

In the first place the profit and loss account is a document which the Companies Act requires to be laid before the company in general meeting at least once a year (Section 148). It must give 'a true and fair view of the profit or loss of the company for the financial year' and it must comply with the requirements of the Eighth Schedule to the Act (Section 149);

An address delivered on September 11th, 1951, at the summer course of The Institute of Chartered Accountants, in England and Wales, held at Christ Church, Oxford.

and the auditors of the company must make a report to the members on it containing statements as to the matters mentioned in the Ninth Schedule to the Act.

I would like to stress that the profit and loss account (like the balance sheet) is laid before the *company* and the auditors are required to report on it to the *members* of the company. The accounts of a company are often of interest to a number of people other than the members of the company – for instance to creditors, to intending investors, to accountants and accountancy students, to economists and so forth; but the prime duty of those who prepare and audit accounts of companies is to present to the *members* a true and fair view of the company's affairs at the end of the financial year and of its profit or loss for that year.

In view of the present general rise in price levels and the inflationary situation in which we find ourselves, it has become necessary to decide whether, in presenting accounts to shareholders under the Companies Act, 1948, we need to change the practices which have been followed for many years. I mean of course, particularly, to make up our minds whether current profits should be arrived at after charging depreciation of assets calculated to provide, at the end of their useful lives, their estimated replacement cost rather than their original cost.

From some comments which I have read on this important question I am bound to conclude that we accountants, or some of us, are thought to be unwilling to admit that what we thought were universal principles are not valid under the peculiar conditions of today, and we are even sometimes accused of failing to distinguish clearly between capital and revenue. I do not feel called upon to deal with these criticisms which I think are entirely misconceived. I do not think that as a profession we have shown ourselves lax of principle nor have we shrunk from new ideas. Not that there is anything very novel in the notion of providing for depreciation on the basis of replacement cost: for example, it is, I think, no secret that for thirty years and more it was the recognized ideal of the railway companies and practised by them whenever net revenues were adequate to permit of it.

I have said that the profit and loss account of a company is primarily intended for the *members*. The net profit for the year shown by the profit and loss account is not of course the *distributable* profit; the distributable profit is the figure which the directors recommend for distribution. And, when articles say (as Table A does) that dividends shall be paid only out of profits, they mean only out of profits available for dividend (*Longacre Press Ltd v. Odhams Press Ltd* ([1930] 2 Ch. 196)). There is no principle which compels a company while a going concern to divide the whole of its profits among the shareholders (*Borland v. Earle* ([1902] A.C. 83)). Consequently it does not follow that because profits are shown by the profit and loss account they are going to be distributed. Directors may well decide that – having regard to the rising cost of plant and stock and other assets that have to be renewed or replaced – they cannot wisely recommend that all the profits shown by the profit and loss account should be divided. They may prefer to carry forward or transfer to general reserve or to a replacement reserve – the effect will be much the same – such part of the net profit for the year as they think should be retained.

But shareholders may well expect to be told and are entitled to know not only what profits the directors recommend for distribution, but the actual total profits for the year in the legal sense.

Profits, in the legal conception of the term, represent the increase in the net worth of a business between two successive dates. In the case of *The Spanish Prospecting Co Ltd* ([1911] 1 Ch. 92) Fletcher Moulton, L.J., said:

> '"Profits" implies a comparison between the state of a business at two specific dates, usually separated by an interval of a year. . . . We start, therefore, with this fundamental definition of "profits", viz.: If the total assets of the business at two dates be compared, the increase which they show at the later date as compared with the earlier date (due allowance of course, being made for any capital introduced into or taken out of the business in the meanwhile) represents in strictness the profits of the business during the period in question.'

It is, I think, important that, wherever possible, the accounts should show and show clearly the profits for the year in accordance with the strict legal conception of profit. Indeed in many cases the rights of shareholders and others may depend upon profits being computed strictly in accordance with the legal conception – for example where a business is being carried on by trustees for the benefit of a life tenant under a will. Of course most shareholders are interested less in the legal conception of profit than in the profit available for dividend as recommended by the directors, and the Act requires this to be stated also.

But what directors must ask themselves is whether a net profit figure ceases to be true and fair if, in times of rising prices, it is arrived at without providing for the enhanced cost of replacing stocks or renewing assets when they become worn out.

The problem of course is essentially one of under-capitalization and not all businesses are affected to the same degree. Rises in price levels are apt to affect different commodities to a different extent, and at different times; and one business which freely uses a particular kind of raw material may be much more severely affected by a steep increase in the price of that material than would other businesses which use less of it or which use materials the prices of which have not risen so steeply. What is true of materials is equally true of plant and other fixed assets. Moreover the *rapidity* with which assets, both fixed and current, require to be renewed differs in different businesses and the effect of rising prices may vary correspondingly. There can also be very wide differences in the extent to which materials on the one hand and depreciation charges on the other enter into the costs of commodities being manufactured by different

businesses, and these differences again may influence the degree to which the effect of rising prices is felt.

What may be a vital and anxious problem to one business may therefore seem rather an academic point to another business, and I think this largely accounts for the different views which are held on this problem. In ordinary times, during the lives of most of us here, there has I think been a steady upward trend of costs and prices but it is only when this upward trend becomes sharp and violent that a problem manifests itself to any great extent. In ordinary times the position is largely self-regulating. New assets are always coming along to replace old ones, fixed assets and current assets both being turned over in either a longer or shorter period, and in this way the effect of rising costs is diluted and the business is generally able to take the normal fluctuations in its stride. Even when, as at the present time, price levels are rising and rising steeply, some businesses, by reason of their financial structure or otherwise, find that they can afford to wait even after the effects of inflation on the replacement cost of their fixed assets and their stock has begun to obtrude itself. Owing to the reserves which they have built up they find they are able to weather the storm whereas other companies, owing to the different structure of their finances or for other reasons, find difficulty in doing so.

In these circumstances I am sure that it is most unwise to dogmatize or to rush into battle on behalf of some course of action which may be very appropriate for one particular business at one particular time, but which may bring in its train a whole host of unconsidered difficulties for other businesses at either the present or some future time. Nor, I think, is it very helpful to suggest that those who do not immediately take some extreme form of action have failed to recognize the problem.

Without actually charging against the profits of the year provisions calculated to provide for depreciation on the replacement value of fixed assets or to provide funds out of which stocks can be replaced at higher price levels, there are many ways in which the directors can indicate to the shareholders in cases where it is necessary to do so their opinion that part of the profits earned should be retained in the business in order to meet these expected (but by no means certain) expenditures in the future. For example a specific reserve can be set up; or notes can appear on the face of the accounts; or the directors can comment in greater or less detail in their report to the members.

On the other hand we must I think recognize that there may well be cases where this treatment would be inadequate to bring home to the shareholders the fact that foreseeable increases in price levels are going to have a very serious effect upon the available resources of the company. It may be that the replacement cost of the plant used by a particular company has already increased substantially in price and that depreciation happens to constitute a very large part of the cost of the products manufactured by the company. Perhaps too the price of the raw materials which the company uses may have substantially risen and may be still rising. A profit and loss account which showed a substantial profit in such circumstances might be misleading, and the directors might feel that something more positive and definite than a mere ear-marking of part of the profit for future replacements was necessary if a true and fair view was to be given.

In my opinion it is unwise to lay down any hard and fast rules in this matter. After all profit and loss accounts are domestic documents and they should represent the best attempt the directors can make to bring before their shareholders a 'true and fair view' of the state of affairs of the company and of the profit or loss for the year.

Many would say that under conditions of inflation as they are today this can only be done by revaluing fixed assets at their replacement cost, by including these revalued figures in the balance sheet, scaled down to reflect the portion of their estimated life which has not yet expired and by providing annually for depreciation on the basis of the revalued figures. I myself would deny that a true and fair view could never be given unless this procedure were followed. On the other hand I can imagine that in some cases the following of that procedure might give a true and fair view.

It is not necessary to point to the case of Germany after the First World War to prove that when runaway inflation occurs old values must be abandoned and a new start made. We cannot look far into the future and it may be that runaway inflation awaits us. If and when it does come we shall have to wipe the slate clean and start again; but I do not think that we shall necessarily reap any advantage from anticipating what cannot be foreseen.

What we have to do is weigh up the degree of distortion of the profits caused by the particular impact of the inflationary situation on the company concerned and decide whether this distortion is likely seriously to mislead the members. In reaching a decision the directors must naturally try to weigh up the corresponding degree of distortion which may well prove to be the consequence of departing from actual or historical figures and substituting estimated current figures which may be valid only for a short time and may therefore soon be as unrealistic as the historical figures, without the advantage which the latter have of at least being factual. These decisions are difficult ones for directors to make but I think that the evidence at the moment is that directors are still generally content to rely upon the methods of orthodox historical accounting until there are signs that we have moved a good deal further than we have up the inflationary slope. We ought not I think to allow any question of the 'difficulty' of arriving at replacement cost values or of depreciations based upon those costs or of the manipulation of the various figures to affect our judgment or decisions in this matter. There are of course certain technical problems

which may be troublesome but it is not for that reason that we should decide our course of action because such difficulties as these are not insuperable.

Economists are interested in the profits of industry as forming part of the national product, and it would enable them better to obtain the picture of industrial profits which they need if profit and loss accounts gave figures of net profit, after actually charging the sums necessary to make good current depreciation on a renewal or replacement basis rather than on an original cost basis; and if stocks were valued in such a way that rising costs were not reflected in an increase in inventory totals – for example by using the so-called LIFO method. It may well be that the information which economists need is so important that it ought to be supplied to them – much as adjusted profits for tax purposes are supplied to the Inland Revenue authorities or census of production figures to the Board of Trade. But it is surely going too far for economists to complain that domestic profit figures, prepared for the information of the *members* of companies by or on behalf of the directors, are erroneous just because the appropriate convention in accordance with which they are prepared does not happen to suit them as economists.

I would therefore conclude that as regards profit and loss accounts of companies, it should be a matter for the directors to decide whether or not they should take account of the replacement cost of their fixed and current assets, when preparing the annual profit and loss account to be laid before the company in general meeting, and I believe that to lay down any definite rule in this matter having universal application would be a mistake. Certainly before any such rule were enunciated the rights of different parties who might be affected would require to be most carefully considered. If, as regards fixed assets, the rule were to the effect that current profits should be charged not only with a year's wastage of the replacement cost of depreciating assets but also with a sum to make good past under-provisions on this basis over the remaining estimated lives of the various assets, then we must be prepared to face the possibility that, in the case of many companies, the profits would be entirely extinguished perhaps for some years to come.

I believe that the controversial character of this question is largely bound up with the criticism of profits which tends to become active in times of inflation and with the taxation of profits which in such times operates more harshly. I propose therefore that we should give these two matters our consideration at this stage.

Reasonable Profits and Excessive Profits

Let us assume that a government department, under powers which it has, wishes to ascertain whether a particular concern is making 'reasonable' or 'excessive' profits. Such a situation arose frequently during the war when investigations were made into the accounts of contractors who were engaged in manufacturing and supplying warlike and other stores to the armed forces of the Crown. It has arisen since the war when certain committees have been appointed to inquire into individual industries – the cement industry for example. To a less degree it has arisen in the deliberations of the working parties appointed by the Board of Trade to inquire into a number of industries in the immediate post-war period. It has arisen in the investigations which have been made by the Monopolies Commission appointed under the Monopolies Act, and in this present time of rising costs of living any kind of 'profiteering' is objectionable and we are all interested in seeing that profits are reasonable.

Now it is one thing to prepare a profit and loss account and circulate it to the shareholders of a company for their information, but it is quite another thing to take the profit shown by that profit and loss account and to infer, either from that figure alone or from that figure in conjunction with other figures, that the profit is reasonable or unreasonable.

I cannot help thinking that one of the most interesting developments which has occurred in recent times has been the almost tacit acceptance not only by the profession but by business men generally of the notion that by comparing profits with capital employed, the latter undefined, one can arrive at a percentage or yield or return on employed capital which will demonstrate whether or not a profit earned was 'reasonable'. In Appendix A[1], I have set out a brief summary indicating, by means of quotations from official sources, the development of this recent trend of ideas. These extracts show that it has been the official practice to calculate employed capital on excess profits tax lines, taking fixed assets at their depreciated values as calculated for tax purposes. During the war it was assumed that $7\frac{1}{2}$ per cent on the employed capital so computed was a 'reasonable' profit though a small additional percentage was sometimes allowed where the contractor was very efficient or took abnormal risks.

One thing must strike us at once and that is how unlikely it would be if the official methods of relating profits to employed capital were ever to result in an equitable criterion for judging the reasonableness or otherwise of profits as between one concern and another, or one industry and another, and there are other features of these methods which I find objectionable. That, of course, does not mean that I wish to defend the making of unreasonable profits but only that I wish to condemn unreliable tests of whether or not profits are reasonable. Nor, I think, is it necessary for me on this occasion to stress that profits are necessary to our existence. As Lord Keynes put it, profit is the 'engine which drives Enterprise'; and as Mr Garton Ash said, speaking in March last, as President of the Institute, 'Profits are not iniquitous – they are essential'. Indeed in his budget speech on April 10th last, the Chancellor of the Exchequer himself said:

> 'There are some who disapprove of profits in principle. I do not share their view. In an economy

[1] The Appendices will be reproduced next week.

three-quarters of which is run by private enterprise it is foolish to ignore the function of profit as an incentive.'

As I have said, I think that the principle of relating profits to capital employed as practised by government departments is open to a number of objections.

The working party for the jute industry compared the average annual percentage rate of profit on capital employed with the yield from Consols, thereby indicating that the object of the capital employed calculation was to determine whether the profits gave a reasonable or unreasonable yield on the amount invested. Normally when comparing yields, one measures the annual income against the realizable value of the investment. The yield on a stock not yet bought is the annual income it will return for every £100 expended on the purchase of the stock. And if a stock is already held and one wishes to measure its yield, in order to compare it with the yield on other stocks, one does so by comparing the annual income which would be lost if it were sold with the *amount its sale would realize*. In considering whether to switch from one investment to another one does not calculate the yield on the *cost* of the existing investment. If one did so, investments acquired cheaply would never be switched at all.

Similarly, in criticizing profits earned in relation to employed capital there can be no possibility of equitable comparisons between *different cases* unless the employed capital in every case is valued at its current realizable value at the time of the comparison. If original outlay is taken as the measure of the employed capital unfairnesses are bound to result. For example a man who begins to trade by acquiring some asset in the cheapest possible way – suppose that he buys some scrapped machine tool and cleverly adapts it so that he can make in large quantities and readily sell an article having some popular appeal – such a man may well earn annually an enormously high percentage on the cost of his capital outlay. It may of course be said that this is a hypothetical example chosen to suit the argument and that, in practice, such cases would not be likely to occur; because in the case of the ordinary going concern of any size, while it might have acquired certain of the assets cheaply, on the whole it could be safely expected to have a preponderance of up-to-date plant and other assets acquired at recent market prices, so that the capital employed would not be abnormally or unreasonably low if taken on the basis of its cost – certainly not so low that the percentage return would be misleadingly increased.

This reply must be rejected. It is not a fact that there may be only a negligible effect on the profit percentage if assets are included in employed capital on a basis which looks to their cost rather than their realizable or replacement value as can be demonstrated by example (see Appendix B). Nor can we accept as a cogent argument one which is equivalent to saying that a wrong becomes right if its general effect is not too obviously objectionable. Certainly the Treasury have always been fully conscious of the unfair effect which results from taking assets on an original cost rather than a replacement basis, and, referring to the principle of capital employed their spokesman admits that

> '. . . when we look at it ourselves and see some of the curious results that arise in individual cases because of the peculiar capital structure of a particular firm – it may be a very old-fashioned firm and it may have bought in the slump or it may have bought dear – we do feel that it is by no means an infallible rule at all.' (See Appendix A.)

Our first criticism of the official view of how the capital employed principle should be applied is therefore that the practice of including assets at a value related to their cost is unsound and could be quite unfair as between one concern and another or as between one industry and another. And it should be observed that this particular criticism does not involve any consideration of what a proper rate of profit is.

Our second point of criticism of the official view is directed to the practice of including fixed assets in the capital employed computation at depreciated values. This practice has been followed so consistently in a number of different connexions that it may now almost be said to be hallowed by usage. Nevertheless I venture to think it is based on a fallacy.

The argument from first principles is quite simple. Let us suppose that a man's capital amounts to £500 which he decides to spend on acquiring a new and up-to-date hot-potato barrow in order to trade as a seller of hot potatoes. He finds that in his first year of trading he has made a net profit before depreciation of £200. Realizing that his barrow will not last more than ten years he wisely decides to charge £50 a year against his profits for depreciation, which leaves him with a net profit of £150. With equal wisdom he invests £50 of his cash in savings certificates each year so that when the time comes to replace the barrow he will have the necessary funds available.

At the outset of his trading career it is clearly reasonable to say that his capital employed being £500 and his annual net profit £150, his profit represents 30 per cent of his employed capital. At the beginning of his tenth year of trading the depreciated value of the barrow will be £50. Are we then to say that in that year his annual profit of £150 represents 300 per cent of his employed capital? Obviously not; but it may be said that in arguing thus we are forgetting the £450 which, by the beginning of the tenth year, will have been accumulating in savings certificates, and that this must be brought in as part of the employed capital. But where computations of capital employed are concerned it is invariably argued that money on deposit or invested outside the business is not 'employed' in the business, and such an argument is hard to resist. Even if the funds representing depreciation provisions are not invested but left as cash at the bank (a procedure which may

be unsound on many grounds of economy or prudence), they are liable to be attacked on the assumption that they represent 'surplus' moneys not required for the immediate purposes of the business and therefore not 'employed' in the business. It will be within common recollection that cash funds were regularly 'disallowed' on these grounds as not being capital employed both for excess profits tax purposes and for the purpose of cost investigations conducted during the war for the supply departments.

It is more reasonable and logical to include assets in computations of capital employed at undepreciated values – in fact at full replacement value – and to exclude any cash or investments which can clearly be demonstrated to represent depreciation funds.

While the theoretical argument here is simple we must be prepared to answer the suggestion that it runs counter to the practice followed for excess profits tax purposes. In particular we ought to examine for a moment the analogy afforded by the percentage standard which was available for calculating liability to excess profits tax in cases of new businesses or where the ordinary standard available to an existing business was less favourable.

For the purpose of the percentage standard it was necessary first accurately to compute the capital employed in the business (not, be it noted, merely the *increase* in the capital employed since a given starting date) and then to apply the appropriate percentage to the total employed capital figure to give a standard profit above which taxable profits earned would be liable to excess profits tax. By the provisions of Rule 1 of Part II, Seventh Schedule, Finance (No 2) Act, 1939, assets, the subject of a wear and tear allowance, were to be included in the capital employed at their net wear and tear values, and any investments or cash surplus to the requirements of the business were to be excluded (Rule 3 of Part II of Seventh Schedule, Finance (No 2) Act, 1939). Now I fully appreciate that, in a taxing statute, the legislature is entitled to lay down any formula or basis it chooses upon which the tax is to be calculated and, having done so, equity does not enter into the matter. But it is nevertheless open to us to inquire into the assumptions on which the legislature appears to have acted in arriving at any particular formula and to satisfy ourselves that they are fair assumptions. If we come to the conclusion that the assumptions on which the formula is based are false or misconceived, then we shall probably conclude that the application of the formula produces an inequitable result. Whether or not it is possible, in such an event, to bring about a change in the law is of course a question of politics; but at least we ought not to remain silent while a formula, which we believe to have been based on misconceived assumptions, is apparently accepted as constituting a good precedent for use in other connexions.

The difficulty of course is that the legislature is inarticulate. The statutes are strictly confined to giving legislative expression to the policy decided upon by the government of the day, and are not concerned to express the reasons for the policy. Nor are references to the debates in Parliament particularly helpful, especially where technical fiscal matters are concerned. In this instance however we are exceptionally fortunate. The general structure of the excess profits tax follows closely and is unquestionably based upon the excess profits duty imposed during the First World War. As regards the profits standard, while the language of the statutes may differ, the effect of the law relating to the excess profits tax is virtually identical with that relating to excess profits duty; and as regards the latter we have a detailed account of when, how and why the duty was imposed in *Taxation during the War*, written by Sir Josiah (later Lord) Stamp and published under the auspices of the Carnegie Trust by the Oxford University Press in 1932. No one was better qualified than the late Lord Stamp to appreciate the principles involved, nor in a better position to know the official view of these principles. As he writes in the preface:

> 'In the matter of authority, the record ought to benefit from the fact that the writer of it took a prominent personal part in nearly all that is recorded and was in constant contact with all the Chancellors of the Exchequer and Financial Secretaries to the Treasury during the period from 1914 to 1920.'

Lord Stamp introduces his discussion of the percentage standard by saying:

> '. . . The broad principle . . . was that, if no more favourable standard is available to the proprietor of the business . . . his excess profits may be reckoned from the starting-point of a fair return on the capital which he had at stake in the business.' (Op. cit. page 166.)

He then refers to the exclusion from capital of investments outside the business and borrowed capital neither of which could be regarded as proprietors' capital at stake *in* the business, and continues:

> '. . . the capital could be looked at from two points of view: (*a*) total money put in, or (*b*) the value of the assets. The value of the assets could also be looked at from two points of view: (1) cost price and the extent to which the amount representing the cost price had disappeared by wear and tear; (2) present market value.
>
> 'The total money put in would not have reflected the gross capital at stake, for the money might have been squandered or misappropriated. Again, the then market value of the assets would not reflect that capital, for, in so far as that market value could be ascertained (and the valuation would have been one of great difficulty), it depended in general on the profit-earning capacity of the asset (*sic*) at the time, and a fair return thereon would thus have been liable to yield a result equivalent to the amount of the actual profits at the time, and form no effective substitute for the profit standard. The method adopted – and, it seems in the result, the only sound method – was that of reckoning the assets, still in use in the business, at cost price, reduced (in the case of assets suffering in profit-earning capacity either by exhaustion of power or increasing need of

repairs) according to the amount of the "life" that had expired. If provision had been made for replacement of the asset when exhausted, such provision came into the total assets of the trade or business, but if not, it was evident that by wear and tear the original capital was being used up and part of the cost-value had been consumed along with profits in the past.' (Op. cit. pages 166 and 167.)

Now I find myself in the very strongest disagreement with the views expressed in this passage, from which it appears that the use of cost price instead of replacement value (Lord Stamp calls it 'market value') was considered to be justified on two grounds, viz.:

(i) That the ascertainment of market value would have been one of great difficulty, and

(ii) That because the market value depended in general on the profit-earning capacity of the assets a fair return would have given the same figure as the profits and would not have afforded an effective substitute for the profits standard.

As to (i), I do not agree that there would be any great difficulty in arriving at proper realizable values for the assets. Similar values are arrived at for reinstatement insurance and other purposes regularly, as a matter of routine. Certainly no greater complications would be involved than, for example, those experienced in the reverse direction in arriving at 'first cost' for industrial building allowances for income-tax purposes. Moreover it needs more than a plea of administrative difficulty to justify such a difference in basis as that which could exist between realizable value and cost.

As to (ii), I simply do not understand the argument. The whole point of the percentage standard is that for a new business or as an irreducible minimum for an existing business the excess profits can be measured by reference to a standard representing (in Lord Stamp's own words) 'a fair return on the capital . . . at stake in the business'. I claim that the capital at stake in the business is the replacement value of the assets comprising that capital. If a fair return on this gives a standard profit the same as the profits currently being earned then there would presumably be no excess profits liable to duty. One could have understood a provision that the replacement value placed upon the assets should have been limited to that ruling during the standard period, but the argument advanced in the passage quoted does not address itself at all to justifying the use of cost as against the replacement value of the existing assets. I find I cannot agree either with the statement that the 'market value' of the assets depends 'in general on the profit-earning capacity of the assets'.

Lord Stamp goes on to explain that the practice of including the assets at depreciated values – whether or not depreciation or (as he calls it) replacement has been provided for – was considered to be justified on the grounds, either express or implied, that

(i) The assets suffer in earning capacity by exhaustion of power or increasing need of repairs as they grow older.

(ii) If replacement has been provided for, the assets representing the provisions will come into the total assets of the business.

(iii) If replacement has not been provided for the original capital is being used up and part of the cost value 'consumed along with profits in the past'.

As regards (i), I agree that, in most though not all circumstances, the statement is true, but I deny the relevance of the statement to the present argument. To revert to our earlier illustration: it is probably true that, as it grows older, the earning capacity of the potato barrow may suffer somewhat, but not in any degree comparable with the stage of the journey towards its ultimate end indicated by the mile-post of its depreciated book value. The earning capacity of an asset does not steadily diminish from 100 to zero during its life. At the worst it probably begins to fall in the second half of its useful life and then only to an *uneconomic* level (let us say for example from 100 to 70) not (as its depreciated value does) to zero or scrap value.

As regards (ii), we have already seen that the funds representing depreciation provisions will *not* come into the total assets of the business if they are invested outside the business or if they give rise to idle cash balances.

As regards (iii), it seems entirely irrelevant to the point at issue whether or not the business has in the past provided for depreciation: the phrase 'part of the cost value had been consumed along with the profits in the past' is a difficult one, but it appears to mean that, because depreciation was not provided for, profits were overstated and therefore 'consumed' as dividends. This may or may not have happened, but for the purpose of the present argument it cannot matter whether dividends were underpaid or overpaid in relation to profits in the past; the real question is what, for the purpose of achieving a substitute profits standard, is a fair return on the assets actually employed in the business now? And to take assets at depreciated values cannot, for the reasons already explained, produce a fair result.

We have seen that when criticizing the 'reasonableness' of profits by relating them to capital employed in earning the profits, unfairness or misunderstanding is likely to arise, particularly as between different businesses, unless the capital employed is measured on the basis of replacing the invested net capital assets at current price levels. But having so measured the employed capital what percentage of that capital ought to be considered 'reasonable'? This question is not one to which we are likely to receive a firm official answer. Obviously the percentage return on gilt-edged stocks from time to time must constitute an extreme lower limit and the return ought to be sufficiently above that lower limit to act as a spur to enterprise and an encouragement to risk. It ought also to be borne in mind that much profit is not strictly earned by embarking capital, but by ability to organize and arrange. I do not suppose that the

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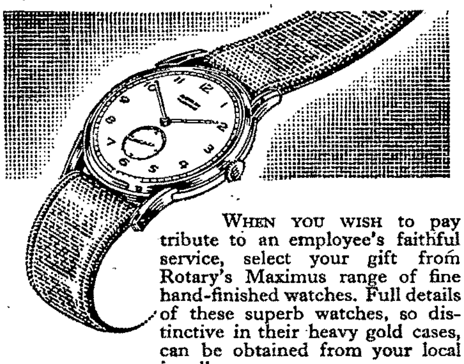

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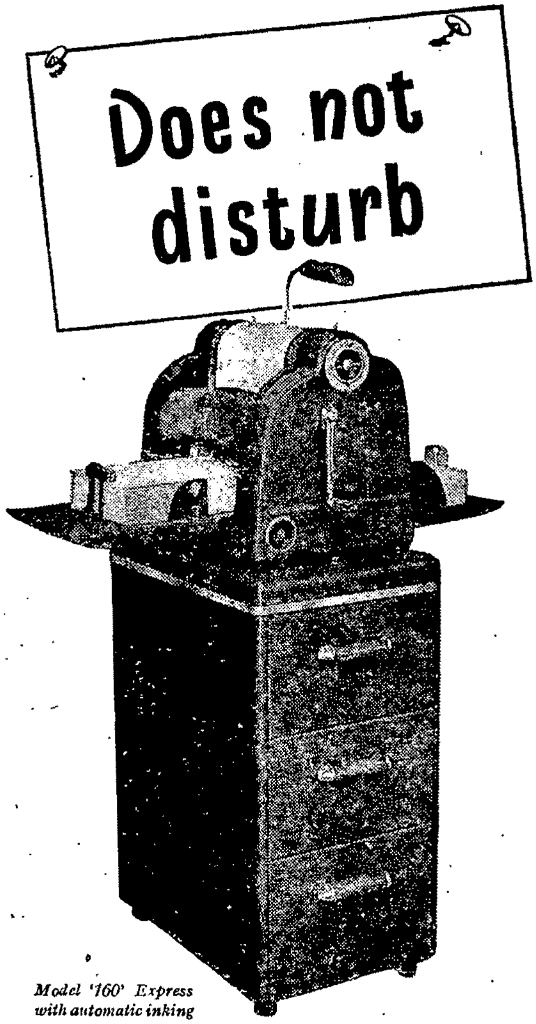

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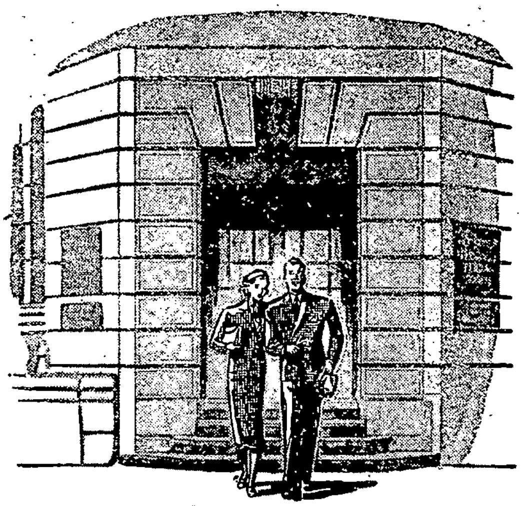

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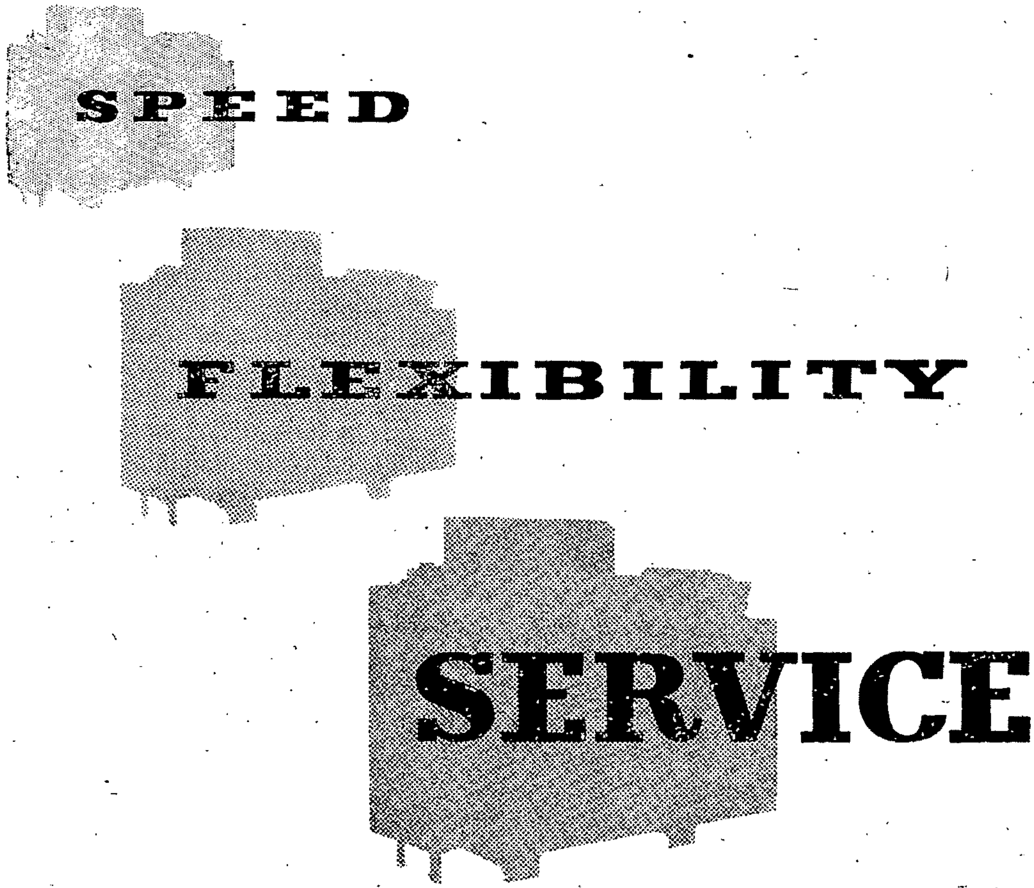

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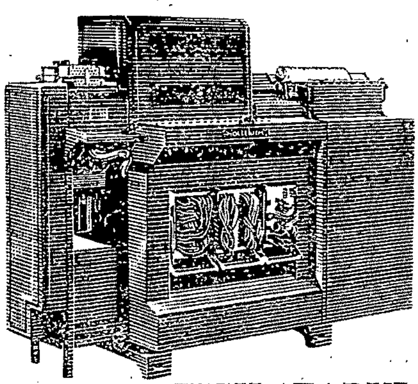

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average accountant or member of the bar, for instance, would care to be limited in his net annual earnings to say 7½ per cent on his capital employed; and inquiry would, I am sure, reveal that no small part of the net profit of many trading concerns came not only from the employment of capital resources but also from services rendered or other activities which do not involve the risk of capital resources in any form.

It is for these reasons that I question the value of relating total profits to so-called employed capital even where the latter is appropriately valued for the purpose; and I must confess that I find myself disposed to regret the reference to this matter contained in the pamphlet recently distributed by the Council of the Institute entitled 'Statistics relating to income of and capital employed by companies'.[1] It is true that the headnote to the pamphlet states that:

> 'It cannot yet be said that there is a recognized and established technique for the compilation of such statistics. These notes are an endeavour to crystallize the experience which is at present available . . .'

but notwithstanding that reservation I cannot help feeling that the treatment of the subject in that pamphlet might lead the unwary to believe that such comparisons had greater value than in fact they have. It is attractively simple to compare one total figure called profit with another total figure called capital employed and to praise or damn an enterprise according as the percentage of one to the other falls short of or surpasses some arbitrary mark; but such method cannot achieve justice or fairness because the factors involved are infinitely more complex than to admit of judgment on such rough-and-ready lines. This is particularly the case when the figures selected for the comparison are taken from the published accounts without any adjustment. Such a comparison, for the reasons we have been discussing, cannot normally give any reliable indication; and to make the comparison is therefore to lend authority to a practice which cannot be invariably appropriate and may often be seriously misleading. As an illustration of the kind of injustice that might result from such a proceeding I have set out in Appendix B the hypothetical case of three concerns, X., Y. and Z. all making and marketing the same product on the same scale but under different conditions. For example X. rents its factory and plant whereas Y. bought its factory cheap in the last century but Z. dear last year. The marketing of the product is different in the three cases and this affects the amount of capital at stake.

	Company X.	*Company Y.*	*Company Z.*
	£	£	£
Capital employed calculated in the 'official' manner	3,000	16,000	85,000
Net profit before tax ..	£2,000	£3,500	£5,000
Percentage of profit to capital employed ..	66⅔%	22%	6%

[1] See *The Accountant* of February 24th, 1951.

The figures are of course chosen to illustrate the point, but are not I think unduly strained or fanciful. The picture which this illustration gives can be summarized briefly as at foot of previous column.

If in fact there were three concerns whose net profits were as similar but the capital employed structures of each were as diverse as those shown in the illustration, a grave injustice could be done if the only criterion of undue profits were the one given by such a calculation as this. And because such calculations can give such an entirely misleading impression I deprecate the publication of them as giving them a kind of authority which, in my judgment, should be denied them.

It may be asked what should take the place of such calculations when attempting to determine 'reasonable profits'? To this my answer would be, that must depend on each individual case. If *all* the profits are clearly earned by the capital embarked in the business then some guide would, I think, be afforded by relating the profits to the replacement cost of the net capital assets at stake; but if an appreciable part of the profits were not attributable to the use of the assets employed in earning the rest of the profits, then an adjustment ought to be made so as to relate to the capital employed only that part of the profits which it was instrumental in earning. You will appreciate that I am not speaking of the emergency measures which any government might have to take in the event of war or dire crisis. I am speaking of what is fair and proper in ordinary times on the assumption that it is not a crime to seek rewards, even generous rewards, for enterprise and efficiency. Having decided that in a particular case it was appropriate to relate profits to employed capital and having ascertained the current replacement cost of the capital embarked, it would then be a question, What rate of profit would be reasonable? The answer would depend upon the nature of the business, the extent of the risk, the competitive or potentially competitive situation, the general good of the country and so forth. Inevitably the answer must be a political matter for it must weigh up and compare the advantage of those employed in the industry, of the consumers and of the shareholders; and the value of profits as an inducement to efficiency and competition must be set against the undesirability of excessive profits due not to efficiency, but to monopoly. While as individuals we may have strong views, as accountants I think we are not greatly concerned in what is a reasonable rate of profit, but we *are* vitally concerned in making sure that calculations purporting to give an indication of the reasonableness or otherwise of profits are fair calculations which will not give arbitrary and misleading indications. I suggest that we should not ourselves use or countenance vague statements expressing profits in relation to capital employed without any indication of the basis on which the figures are computed or of the conclusions which it is intended should be drawn from them.

(To be concluded.)

WEEKLY NOTES

Contraction of Bank Credit

Any doubts there may have been in trade and industry that the increase in the bank rate would not, or even was not intended to, percolate through to the terms on which bank advances would be made, should now have been removed. Last week a statement was issued by the London Clearing Banks saying that the banks would give full co-operation in the new policy of credit restriction which was inaugurated some weeks ago when the bank rate was raised. Stating that conditions require further action by the banks, it went on to say, 'It is the intention of the banks to fulfil this responsibility.' Further on the statement said: 'The object of this letter is to sound a note of warning and to enlist the co-operation of the whole community. . . . We must warn every trader and every individual borrower that requests for advances will be more and more critically examined and that bank borrowing will tend to become more expensive.'

The effect of this communication from the banks should be more, however, than to dispel doubts or to sound a warning. It should have the effect, which doubtless is also deemed desirable by the banks, of making people wonder just how stringent conditions are going to become. The classical device of playing upon uncertainty, which is sometimes called relying upon the psychological factor, is now to be employed. Such an air of uncertainty also provides the authorities with a useful means of examining the consequences of their policy as they go along. They are committed to no targets nor specific ends.

This is, of course, a technique of moderation as well as a general weapon against inflation. The banks say there is a change coming. They say no more than that. It is quite unthinkable that the monetary authorities have any thoughts of stimulating a deflation such as swept the country in the twenties. But everyone knows now that all the financial weapons are to be kept ready for use, if need be, to effect a mild degree of disinflation.

Oil Agreement with Kuwait

A new profit-sharing agreement between the Sheikh of Kuwait and the Kuwait Oil Company has been announced this week. The Kuwait company is owned jointly by the Anglo-Iranian Oil Company and the American Gulf Exploration Company. Under the new arrangement the Sheikh will get 50 per cent of the profits of the company's operations, which will be obtained by levying an income-tax for the purpose as from December 1st. Other points in the agreement are that the Sheikh's receipts will be calculated before United States and United Kingdom income-tax, provision of increased facilities for training local personnel in the oil industry, and the extension of the concession period.

The proceeds, which are estimated to be worth about £50 million a year to the Sheikh, are nominally transferred to his personal account, but this somewhat anachronistic accounting device to ensure that authority and the public purse are the perquisite and privilege of one person, does in fact mean that there will be a sudden and large inflow of funds into the local Treasury – already committed to a large welfare and development programme which was financed from the proceeds of the previous royalty arrangement.

Kuwait is now on as up-to-date a royalty basis as any other country in the Middle East. Recent events in Persia will have expedited a new agreement, but the remarkable expansion in oil output since the end of the war gives a basic reason for a sound profit-sharing agreement between the Sheikh and the company. In 1946 output was just under 800,000 tons. In the first half of this year it was over 13 million tons. Kuwait is in fact one of the expanding sources of oil which it is hoped will fill the gap left at the moment by the Persian oil fields. It is reported that the present rate of production at Kuwait is three million tons a month, which is higher than the peak rate of output ever achieved in Persia.

Higher Farm Prices

Increased wage costs and the higher prices that have to be paid for fertilizers are given as the reason for an interim review of agricultural prices. Higher prices for both livestock and foodstuffs have been sanctioned. In the opinion of the National Farmers' Union the increases are far from sufficient. The total increase in costs from these two factors are estimated by the N.F.U. at £40 million, whereas the higher prices will bring in only £26 million. These advances will be reflected in higher retail prices.

Apart altogether from the merits and demerits of giving higher prices as an interim measure before the annual price review falls due, these changes are taking place at a most inconvenient time for the economy in general. This adjustment in agricultural prices is the consequence, in particular, of increased wages to agricultural workers. In other words, the year's wage gain in the industry is now passed on to the consumer. (The Minister of Agriculture made it clear last week that there will be no additional consumer subsidy to take the edge off the increase for the housewife.) The higher food prices will directly affect the cost of living and give further fuel to those other unions seeking further wage demands.

There is already a bout of wage demands coming up for consideration, and a move such as this one in agriculture is not likely to make the unions' representatives any more sensitive to the need to keep the nation's wages bill at around present levels if severe inflationary pressure is to be avoided. There is at the moment plenty of evidence to show that a further powerful twist is about to be given to the inflationary spiral from the side of wages if demands are granted.

There is one other point of interest in the revised prices for the farmers. Restrictions in the amount,

and the terms of bank accommodation may soon overtake the farmers like other producers. It will be interesting to see if this is so and if the higher prices delay or actually stop any drop in production which tighter terms for advances might foster. There is room for endless confusion of policy between the effects of higher interest rates on loans, higher prices for produce and livestock and the optimum size of the farming industry when there is a long-term balance of payments problem.

Enforcement Notices

Although the earlier acts on town planning, such as the Acts of 1925, 1932 and 1943 have long since been repealed, some of their provisions may still affect the law at the present day. An interesting example is afforded by the decision of the Divisional Court in *Buckinghamshire County Council v. Callingham* ([1951] 2 A.E.R. 822).

Under the 1947 Act, provision is made for the enforcement of planning requirements by the powers conferred by Sections 23 and 75 of the Act on the planning authority to serve an enforcement notice, in cases, *inter alia*, in which the existing development happens to have been in contravention of previous planning control. If the notice is not complied with the authority can take the necessary measures, and pull down the offending buildings and structures, or put a stop to the offending use, as the case might be.

Power to enforce planning control even during the interim development period, i.e. between the date of the planning resolution and the date when the scheme came into operation, appears to have been conferred for the first time by Section 5 of the Town and Country Planning (Interim Development) Act, 1943. Previous to that Act the position during the interim development period was that even where consent to development was required, usually under the General Interim Development Order in force at the time, the development could be undertaken even without such consent, and there was nothing that the authority could do to prevent it. (*Bromley U.D.C. v. Blatch* ([1929] 73 Sol. Jo. 325).)

The powers of enforcement are now extended by Section 75 of the Act of 1947 to existing development which contravenes previous planning control, and such contravention will arise, in cases where at the material time the land was subject to a planning resolution, if the development was carried out or begun otherwise than in accordance with permission granted in that behalf by or under the interim development order.

What the court have in effect decided in *Buckingham C.C. v. Callingham* is that where a planning resolution has become operative, then any development carried out in the meantime during the interim development period, but without interim development permission, would be 'otherwise than in accordance with planning permission' for the purpose of Section 75 (9) of the 1947 Act, and an enforcement notice can accordingly be served in respect of it. The position would be the same, even where development was carried out without such permission prior to the date (April 1st, 1933) when the General Interim Development Order, 1933, made under the 1932 Act, came into force.

REVIEWS

The Profits Tax Acts

(His Majesty's Stationery Office, London. 8*s* 6*d* net)

This can be regarded as a companion volume to the excellently produced *Income Tax Acts*, from the same source. As befits the reduced bulk, however, the covers are smaller and less stout, while loose-leaf insertions are made by means of a cord. The book is confined to those provisions which remained in force after the end of 1946. There is a list of orders made under the double taxation relief provisions and the statutory rules relating to assessment and collection are reproduced in full. Last, but not least, there is a fine page index. Perhaps the only criticism one may make is that this book was not produced much earlier.

Book-keeping and Accounts
by Dennis L. Dougan, F.S.A.A.

(Sweet & Maxwell Ltd, London. 30*s* net)

This new work, intended for beginners, has two distinctive features. One is that it is a physically monumental book of 530 pages. The other is that it first introduces the student to the ledger and then works backwards to the books of original entry. The author has tried to make the subject-matter interesting for the reader and it is but fair to say that, as far as possible, he seems to have avoided the pedantic in his approach to what, in its early stages, is necessarily rather a dull subject.

The Trustees' Handbook
by J. A. R. Finlay, M.A., Barrister-at-Law

(Sweet & Maxwell Ltd, London. 10*s* 6*d* net)

This is a handy sized manual for the lay trustee and for the officials of the trustee departments of banks and insurance companies. It is written in a lucid and attractive style and the author has clearly brought to it the advantage of close practical experience of the problems which arise.

SHORTER NOTICE

AN OUTLINE OF THE LAW OF TRUSTS AND TRUSTEES, H. A. R. J. Wilson, F.C.A., F.S.A.A., and C. N. Beattie, LL.B., Barrister-at-Law. (H.F.L. (Publishers) Ltd, London. 5*s* net.) The student will find this synopsis, with its numerous references to statutes and cases, excellent for last-minute revision before an examination.

FINANCE AND COMMERCE

The lack of incentive to support markets makes for continued dullness and uncertainty on the Stock Exchange. Business is extremely small and prices drift downwards.

From New Zealand

We have received from Mr E. O. Hunter, F.R.A.N.Z., the accounts of Ross & Glendining Ltd, of Dunedin, of which he is secretary. Mr Hunter, it may be added, is a member of the Council of the New Zealand Society of Accountants.

These accounts, which we reprint this week, 'are the result of the desire of your board to present the accounts in accordance with modern accountancy practice'. The new form adopted will be seen from the reprint. It will be noticed that a summarized balance sheet is presented which, excluding all detail, brings the financial position into the sharpest focus. The full statement, in single column, expresses total shareholders' funds in terms of total net assets. To secure this view, the debenture debt has been taken out of the context of capital and inserted as a deduction from the fixed assets which in part provide the debenture security.

In the profit and loss account, the transfer to general reserve, it will be seen, is in excess of the amount available from the year's income and is shown as a final deduction from the profit and loss balance including the amount brought forward.

Instructive Style

The business of Ross & Glendining was established in 1862, and has now its own worsted and woollen mills, its clothing and footwear manufacturing divisions, a general warehousing section through which pass goods from overseas, its box factories, etc. The various activities are illustrated.

The accounts are accompanied by much statistical information presented in an instructive style. Thus the analysis of sales emphasizes 'how much of the proceeds from sales are passed back to the public directly and indirectly by way of wages and salaries, local expenses, etc.' Further graphs show the proportion of profits divided and retained and the substantial cut which taxation takes; the growth in fixed assets mainly through the use of retained profits; and the growth in shareholders' funds.

Mr Nidditch Explains

Mr L. Nidditch, chairman of the Ely Brewery Co Ltd, whose accounts were reprinted in our issue of November 3rd, suggests that our conclusion was 'a somewhat critical expounding view' and that he is entitled to have his 'real intentions corrected'. The best way to comply with his request is to give his real intentions in his own words. Mr Nidditch writes as follows:

'Firstly, the reason I mentioned the basis of earning yield was in association with the opinion of the *Financial Times* leading article when the dividend freeze was announced and as a leaning post to support my own contentions.

'I have not been so concerned with the ordinary prices for the time being, but, with the starting-point of all these problems, and that was when we announced record profits and complete recovery by the company in June 1948, and the shares then instead of hardening a 6*d* were lowered from 10*s* 3*d* to 9*s* by the offering of only 1,000 5*s* units and then again valued lower still.

'My 1950 review evidence of the preference shares has been ignored and overlooked and the sharp lowering of the first preference to make them look risky has been ignored and overlooked. Consequently, and because of the action at that date and a "shop" was not established and conditions became difficult generally, and other facts as explained by me, helped to create a deteriorating ***mental approach*** to share values.

'When I referred to valuation of earnings yield I thought it would be obvious to men especially of experience, that I was speaking of companies paying out in dividends between 50–75 per cent on their earnings and the yield basis also had some relation to break-up values. I certainly was not referring to certain companies like some leading shipping companies and a few other expanding businesses that were earning 100 per cent and keeping their dividend at 8, 10 or 12 per cent annually for many years.

Dividend and Shares

'In those cases, in my opinion, the directors have no right to continually expand at the shareholders' expense, and meagre reward, and for what my opinion is worth, they should either pay a higher dividend or give sufficient bonus shares for shareholders to choose whether they keep or sell.

'I respectfully suggest that you have misquoted me and not done justice by suggesting on your right-hand column "as the one and only basis for the valuation of a company's shares"; surely, you must give me the credit that I realize that there must be other considerations? The other considerations as I see it were also referred to by me on the first page of my review, such as where the bonus shares and tax-free capital payments have a value for assumption of being repeated and to what extent based on balance sheet figures and past records and declarations made by directors.

'On this basis I suggest with respect, that Ely shares might have remained at 10*s* or through conditions of supply and demand and other factors, either reach 11*s* or been quoted at 9*s*. Furthermore, if the price had not been allowed to be erratic because of the jobbers' system, there would probably have always been three more buyers and three less sellers, whereas through the present jobbers' system and other circumstances, there has always been created three more sellers and three less buyers.'

Money Market

Applications for Treasury bills on November 30th totalled £244,795,000 and with the bid at £99 15*s* 1*d* the allotment basis was 53 per cent. The average rate was 19*s* 6·54*d* per cent and this week's offer is £170 million.

ROSS & GLENDINING LIMITED

Profit and Loss, and Profit and Loss Appropriation Accounts for year ended July 19th, 1951

	1951 £	1951 £	1950 £	1950 £
Gross Profit from Manufacturing and Trading		935,401		787,037
Less Trade Expenses, including Interest and Bad Debts	449,018		382,118	
Debenture Interest	4,500		4,500	
Depreciation on Buildings, Plant and Motor Cars	39,708		32,730	
Auditors' Fees	905		905	
Directors' Fees	2,500		2,500	
Contribution to Staff Pension Scheme	20,908	517,539	18,495	441,248
Leaving a **Net Profit** on Trading, subject to Taxation, of		417,862		345,789
On which the liability for Taxation is estimated as – Income Tax and Social Security Charge		242,500		199,000
Leaving a balance of Profit available for appropriation of		175,362		146,789
It is recommended that this balance be appropriated as follows:				
2½ per cent interim dividend (paid February 1951)	19,297		14,844	
Proposed final dividend	71,250	90,547	32,656	47,500
Leaving an Unappropriated Balance for 1951 of		84,815		99,289
Plus Balance at July 20th, 1950		122,266		116,977
		207,081		216,266
Less Proposed Transfer to General Reserve		100,000		94,000
Total as per Balance Sheet		£107,081		£122,266

Summarized Balance Sheet as at July 19th, 1951

LIABILITIES	1951 £	1950 £	ASSETS	1951 £	1950 £
Capital, Reserves and Profit and Loss Appropriation Account: (Shareholders' Funds)	2,124,269	1,416,016	Fixed Assets	386,016	326,977
Secured Liabilities	100,000	100,000	Investments and Advances	123,557	155,004
Current Liabilities	550,668	725,449	Current Assets	2,265,364	1,759,484
	£2,774,937	£2,241,465		£2,774,937	£2,241,465

E. O. HUNTER, *Secretary.*

J. SUTHERLAND ROSS }
A. W. JEAVONS } *Directors.*

Statement of Financial Position as at July 19th, 1951

	1951 £	1951 £	1950 £	1950 £
Capital Reserves and Surplus:				
Authorized Capital 1,000,000 Ordinary Shares of £1 each = £1,000,000.				
Subscribed and Paid-up Capital		950,000		593,750
Capital Reserves				
Share Premium Account		267,188		—
Revenue Reserves				
General Reserve	800,000		700,000	
Profit and Loss Appropriation Account – Unappropriated Balance	107,081	907,081	122,266	822,266
TOTAL SHAREHOLDERS' FUNDS		£2,124,269		£1,416,016
Represented by the following Net Assets:				
Fixed Assets				
Land and Buildings, at cost, less Depreciation	232,584		210,468	
Plant, Machinery and Motor Cars at cost, less Depreciation	153,432		116,509	
Total Fixed Assets	386,016		326,977	
Less 4½ per cent Debentures (secured Roslyn Mills)	100,000		100,000	
Total Net Fixed Assets		286,016		226,977
Investments and Advances				
Shares in, and advances to, other Companies	123,557		152,504	
New Zealand Government Loans (Instalment)	—	123,557	2,500	155,004
Current Assets				
Cash in Hand	160		147	
Sundry Debtors and Payments in Advance	535,300		376,254	
Stock-in-Trade	1,729,904		1,383,083	
Total Current Assets	2,265,364		1,759,484	
Deduct				
Current Liabilities				
Trade Creditors and Accrued Charges	158,301		173,454	
Bank Overdraft	76,971		318,115	
Taxation Provision	244,146		201,224	
Provision for Final Dividend	71,250		32,656	
Total Current Liabilities	550,668		725,449	
Total Net Current Assets		1,714,696		1,034,035
TOTAL NET ASSETS		£2,124,269		£1,416,016

AUDITORS' REPORT

In accordance with the provisions of 'The Companies Act, 1933', we have examined the books and accounts of Ross & Glendining Ltd for the twelve months ended July 19th, 1951, and hereby certify that we have obtained all the information and explanations we have required.

We report to the Shareholders that in our opinion the above Balance Sheet and accompanying Profit and Loss Account are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us, and as shown in the books of the Company.

BARR, BURGESS & STEWART,
Public Accountants.

Dunedin, *August 31st, 1951.*

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Notes on the Allocation of Expense

SIR, – In their helpful pamphlet on the above subject, commented upon in a leading article in your issue of November 24th, The Institute of Chartered Accountants in England and Wales stresses that the words 'primary' and 'secondary' are not intended to have any significance in relation to the *order* in which allocations are made.

I suggest that this disclaimer should be borne in mind especially by any accountant who is about to prepare an expense classification 'code' for the first time. To regard the *kind* of expense as the 'primary allocation' *in point of order*, leads to a 'code' and hence a ledger, which is arranged conveniently for once-a-year preparation of financial accounts, but very inconveniently for short-period cost accounts, comparison with budgets, etc.

On the other hand, to reverse the order and regard the *function* of the expense as the primary allocation from this point of view, leads to a ledger which is arranged very conveniently for the latter purposes. Admittedly it is less convenient for end-of-the-year use, but I suggest that this is of minor importance and the inconvenience is slight.

Under the suggested arrangement (and especially if an accounting machine is in use) it is a simple matter for the operator to prepare monthly lists which fall naturally into the order needed for cost and control purposes and save the accountant a great deal of time and work.

I need hardly say that very careful preparation of the 'code' is of the greatest importance – but that is another matter.

Yours faithfully,

Old Coulsdon, Surrey. G. JOHNSON, C.A.

Clerical Salaries Analysis, 1952

SIR, – At certain intervals during the last ten years, the Office Management Association has conducted a survey of clerical salaries rates, the results of which have been published in booklet form. This work is believed to be unique so far as this country is concerned, and on each occasion in the past the Association has received innumerable requests for copies of the booklet, from which it is fairly to be deduced that employers have found the information thus provided to be of considerable value. The 1950 report dealt with 749 separate establishments with records covering the circumstances of more than 73,000 clerks. Since that time it has become obvious that salary rates have substantially altered, and the Association accordingly propose to conduct a new survey so as to reflect the state of affairs existing on March 1st, 1952.

It will be apparent that the measure of usefulness achieved by each report is governed by the extent to which commercial organizations are prepared to co-operate in its preparation. Obviously, the greater the number of participants, the more complete and the more reliable will be the final picture. It is to be remembered that the fundamental purpose of the work is to produce a factual *guide*, and not a series of recommendations, for management.

It occurs to me therefore to ask whether you might be so kind as to assist the Association in securing adequate publicity for the new survey shortly to be started, by publishing this letter in your columns. I am in process of sending out individual invitations to many hundreds of firms all over the country, but there are likely to be many whom circumstances will prevent my approaching direct, yet who may none the less be willing to take part. The past success of this scheme justifies the Association in believing that the tabulated results of these surveys have a very considerable value in management circles generally, and their desire is for that value to be enhanced yet further in 1952, as a result of an even more widespread response from business firms than there was on previous occasions.

All individual statistics supplied to the Association are kept confidential as a result of a special coding system, and participation in the survey does not involve any inordinate amount of labour so far as any one firm is concerned. I shall be most happy to give any further information on the subject to anyone who cares to communicate with me at this address.

Yours faithfully,

J. B. MEASURES,
Secretary,
OFFICE MANAGEMENT ASSOCIATION.

Management House,
8 Hill Street,
London, W1.

Indian Income Tax

SIR, – With reference to your note headed 'Indian income-tax' on page 387 of the issue of October 20th, 1951, I would like to point out that the Central Board of Revenue has extended by a further two months, i.e. up to December 31st, 1951, the time within which the option to be assessed on the Indian income on the basis of the 'total world income' has to be exercised. This applies to assessments for the assessment year 1951–52, i.e. income arising within the year ended March 31st, 1951.

Yours faithfully,

Bombay. N. R. MODY, F.C.A.

[We have confirmed this information with official sources in London – Editor.]

IN PARLIAMENT

Private Profits and Income: Inquiry

Mr G. Williams asked the Chancellor of the Exchequer when the Royal Commission on the taxation of private profits and income is expected to report.

Mr Boyd-Carpenter: The Commission has received a good deal of written evidence, and has held several public meetings at which it has taken oral evidence. I understand however that the evidence so far received is far from complete and that it will be a considerable time before the Commission will be ready to report.

Hansard, Nov. 27th, 1951. Written Answers, Col. 123.

Service Officers' Uniforms: Tax Allowance

Mr John Profumo asked the Financial Secretary to the Treasury whether he is now in a position to announce the result of the promised consideration of a revision of the existing income-tax allowances to officers of the services in respect of the maintenance of their uniforms.

Mr Boyd-Carpenter: Yes, Sir. The Treasury have reviewed with the Service departments the costs of renewal and repair of Service officers' uniforms and have fixed increased amounts. I will, with permission, circulate details in the official report.

The amounts now fixed apply for the income-tax years 1951–52 onwards, but as there are so many cases involved it will not be possible for the P.A.Y.E. codings to be adjusted in the middle of the current year. The increases in the allowances for 1951–52 will, therefore, be effected by an adjustment of the codings for 1952–53.

Following are the details:

Income Tax Allowances for Upkeep of Officers' Uniforms

The amounts shown in columns B II, C II and D II are the amounts fixed in accordance with the provisions of Rule 10 of the Rules applicable to Schedule E, Income Tax Act, 1918, as being in the opinion of the Treasury fair equivalents of the average annual amounts which full-time serving officers of the ranks indicated are obliged to expend wholly, exclusively and necessarily in the performance of their duties.

A	B		C		D	
	Male Officers		Female Officers of ranks equivalent to those shown in column A		Nursing Officers of ranks equivalent to those shown in column A	
	I	II	I	II	I	II
	Present Allowances	Allowances proposed from April 6th, 1951	Present Allowances	Allowances proposed from April 6th, 1951	Present Allowances	Allowances proposed from April 6th, 1951
	£	£	£	£	£	£
Royal Navy:						
Flag Officers	40	70	—	—	—	—
Officers below Flag rank but of, or above, the rank of Lieutenant Commander	35	60	30	40	30	40
Officers below the rank of Lieutenant Commander			25		25	
Army:						
Colonels and above		52		52		
Lieutenant-Colonels	30		30		30	
Majors		50		50		40
Officers below the rank of Major	25		25		25	
Royal Air Force:						
Group Captains and above		47		47		47
Wing Commanders	30		30		30	
Squadron Leaders		45		45		45
Officers below the rank of Squadron Leader	25		25		25	

Hansard, Nov. 27th, 1951. Oral Answers, Cols. 1118–9.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in *The Annotated Tax Cases.*

Lord Advocate v. Angus Trustees

In the Court of Session (Outer House)

July 24th, 1951

(Before Lord BLADES)

Estate duty – Annuity during husband's lifetime – Liferent interest in whole income after his death – Whether duty chargeable on sum yielding annuity – Customs and Inland Revenue Act, 1881, *Section* 38 (2) (*c*) *– Customs and Inland Revenue Act,* 1889, *Section* 11 *– Finance Act,* 1894, *Sections* 1, 2 (1) (*c*).

By a marriage settlement it was provided that the sum of £400 a year should be paid out of the trust income to the wife during the lifetime of the husband, and the balance of the income was payable to the husband for life. On the death of the husband in the wife's lifetime, the whole of the trust income was payable to the wife for life, subject to reduction to one-half on her remarriage. The husband predeceased the wife, and until her remarriage the wife received the whole of the trust income, and subsequently received one-half of it.

The Inland Revenue claimed estate duty in respect of the whole of the trust fund. The trustees contended that no duty was leviable upon that part of the trust fund which was, at the date of the husband's death, required to provide the £400 a year.

Held, that the whole trust fund passed on the husband's death, and was subject to estate duty accordingly.

Craigenlow Quarries Limited v. C.I.R.

In the Court of Session (Inner House)

July 12th, 1951

(Before the LORD PRESIDENT (Lord COOPER), Lord CARMONT, Lord RUSSELL and Lord KEITH)

Income-tax – Land occupied in connexion with mineral concern – Lease of quarry and agreement for sale of spoil banks – Quarry and spoil banks worked as one business – Royalties paid to landowner – Whether royalties deductible in computing Case I assessment – Income Tax Act, 1918, *Schedule A, No. III, Rules* 1, 2, 3, *Schedule D, Cases I and II, Rule* 3 (*m*) *– Finance Act,* 1934, *Section* 21.

The appellant company worked a stone quarry, and also worked three adjoining spoil banks. The quarry was leased to the appellant for ten years, and the right to work the spoil banks was conferred by a minute of agreement and sale of the same date as that of the lease. The quarry and the spoil banks were managed as one business. Under the lease of the quarry a fixed rent of £100 a year was payable or, alternatively, a lordship of 6*d* a ton on stone taken from the quarry. The minute of agreement and sale provided for the sale to the appellant of the stone and other materials therein at a stated figure a ton. The fixed rent under the lease was not payable as long as not less than £100 was payable for material removed from the spoil banks. It was agreed that the appellant was carrying on a concern within Rule 1 of No. III of Schedule A.

In the appellant's profit and loss account for the period ended March 31st, 1949, a sum of £1,137 0*s* 4*d* was charged for 'Royalties etc.', and the appellant claimed to be entitled to deduct this sum in computing its profit for the purpose of Case I of Schedule D. The General Commissioners decided that the sum was a rent within Section 21 of the Finance Act, 1934, and was consequently inadmissible as a deduction in computing the Case I assessment.

Held, that the General Commissioners' decision was correct.

Moray Estates Development Company v. C.I.R.

In the Court of Session (Inner House)

July 12th, 1951

(Before the LORD PRESIDENT (Lord COOPER), Lord CARMONT, Lord RUSSELL and Lord KEITH)

Income-tax, Schedule A – Gravel pit – Gross annual value taken from valuation roll – Whether gravel pit separately assessable – Whether entry in valuation roll binding – Lands Valuation (Scotland) Act, 1857, *Section* 3 *– Income Tax Act,* 1918, *Schedule A, No. I, No. III, Rule* 3.

The appellant company owned an estate on which there was a gravel deposit. In 1942 the company leased the deposit, and the right to work the gravel, to another company in return for a royalty based upon tonnage. From 1942–43 till 1947–48, the appellant company was assessed under Case I of Schedule D, on the amount of the royalties of the preceding year, and no separate Schedule A assessment on the gravel deposit was made. After the decision in *Russell v. Scott,* the Case I assessments were no longer made, and a separate assessment under No. I of Schedule A was made in respect of the area of the gravel deposit. The amount of the assessment was arrived at by taking the gross annual value appearing in the valuation roll, and deducting the amounts of the allowances for repairs and owners' rates. The gross annual value appearing in the valuation roll was calculated by reference to royalties received.

The appellant company contended that the exploitation of the gravel deposit amounted to a sale of goods, and the realization of a capital asset, and did not represent a letting of the area of land in which the gravel deposit existed. It was also contended that the decision in *Russell v. Scott* required that the assessments under No. I of Schedule A should be on the estate as a whole, and that a separate assessment

in respect of the area of the gravel deposit was not valid. The General Commissioners decided that the assessment under No. I of Schedule A on the gravel pit had been correctly made.

Held, that the General Commissioners' decision was correct.

Friends Provident and Century Life Office and Another *v.* Investment Trust Corporation Limited and Others

In the House of Lords – July 26th, 1951

(Before Lord SIMONDS, Lord GODDARD, Lord MORTON OF HENRYTON, Lord RADCLIFFE and Lord TUCKER)

Income-tax – Tax-free payments – Preference dividend – Tax free up to 6s in the £ – Construction of articles of association.

It was provided by the articles of association of Godfrey Phillips Ltd that payment of preference dividends should be tax free up to 6s in the £ in the following terms:

'The "B" cumulative preference shares confer the right to a fixed cumulative preferential dividend at such a rate that after deduction of income-tax thereon at the current rate for the time being (irrespective of any allowance or rebate in the case of a particular shareholder), the amount remaining shall be the clear sum of 6 per cent per annum on the capital paid up thereon less the amount of any income-tax for the time being payable in excess of 6s in the £ computed on the gross sum of 6 per cent per annum on such capital. . . .'

Held, affirming the decision of the Court of Appeal, that the dividend was to be calculated by reducing the amount of a dividend of 6 per cent by the excess of the standard rate over 6s in the £, and treating the figure so found as the net dividend; the gross dividend then being that net figure grossed up at the standard rate. (Thus the net dividend on 100 £1 shares, on the basis of a standard rate of income-tax of 9s in the £, would be £6 less 3s in the £, i.e. £5 2s 0d, the gross equivalent thereof being £9 5s 5d.)

DINNER IN DARLINGTON

North Yorkshire and South Durham Branch of the Leeds, Bradford and District Society of Chartered Accountants

The second annual dinner of the North Yorkshire and South Durham Branch of the Leeds, Bradford and District Society of Chartered Accountants was held at *The Kings's Head Hotel*, Darlington, on Wednesday, November 28th, 1951.

The Chairman of the Branch, Mr W. J. E. Ringquist J.P., F.C.A. (who is also President of the North Yorkshire and South Durham Chartered Accountant Students' Society), presided over a company of some eighty members and guests, receiving them with Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among those present were Councillor H. Sansom, J.P., F.C.A., Mayor of Darlington, Mr C. P. Barrowcliff, F.S.A.A., President, Society of Incorporated Accountants and Auditors, Councillor B. E. Pigg, Deputy Mayor of Darlington, Mr Stephen N. Furness, M.A., Mr T. H. Tilley, President, Durham and North Yorkshire Law Society, and

Messrs Graham Adam, M.C., F.C.A. (*Member of the Council of the Institute*); H. Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); J. C. H. Booth (*Vice-President, Tees-side Chamber of Commerce*); W. S. Boyd, F.C.I.S. (*Chairman, Middlesbrough and Tees-side District Branch, Chartered Institute of Secretaries*); P. Cooper, F.C.A. (*Hon. Secretary, Northern Society of Chartered Accountants*); Derek du Pré (*Editor, 'The Accountant'*). P. W. Goostrey, A.I.B. (*Chairman, Institute of Bankers, Middlesbrough District*); Rev. G. E. Holderness, M.A. (*Vicar of Darlington, Mayor's Chaplain*).

Messrs G. N. Hunter, F.C.A. (*Hon. Secretary, Leeds, Bradford and District Society of Chartered Accountants*); A. L. Ingham, M.SC. (*H.M. Inspector of Taxes*); T. Jewitt, F.S.A.A. (*President, Incorporated Accountants', Newcastle-upon-Tyne and District Society*); A. S. MacIver, M.C. (*Secretary of the Institute*); C. D. North, F.C.A. (*Immediate Past President, Leeds, Bradford and District Society of Chartered Accountants*); W. Nuttall, F.I.M.T.A., F.C.W.A. (*Borough Treasurer, County Borough of Darlington*).

Messrs C. H. W. Sansom, A.C.A. (*Hon. Secretary, Leeds, Bradford and District Society of Chartered Accountants, North Yorkshire and South Durham Branch*); R. W. Swinbank, F.C.A. (*Hon. Secretary, North Yorkshire and South Durham Chartered Accountant Students' Society*); R. P. Winter, M.C., T.D., F.C.A. (*President, Northern Society of Chartered Accountants*).

A civic welcome to the County Borough of Darlington, offered by Councillor H. Sansom, J.P., F.C.A., the first chartered accountant to be Mayor of Darlington, was greeted with loud applause.

Bright Boys

Mr Stephen N. Furness, M.A., proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said in the course of his speech:

'When I was a practising barrister I had the greatest respect and fear of accountants – I considered them the bright boys who were able to add up figures – their craft not being an art as is the law.

'They moved in a world of assurance and security and they received a remuneration twice the size of mine – a fee which, indeed, made a barrister's fee look like an entry in the petty cash ledger.' (Laughter.)

'When I went into business I found out how different things really were – the accountants could certainly add up a little better than I could, but even they could not add up as well as an engineer with a slide rule. (Laughter.) As to remuneration, having been astounded by the tremendous amount, I was greatly relieved by seeing how small it really was.' (Renewed laughter.)

'In my business relations I found that I differed from accountants on several occasions. In their own business

relations accountants frequently differed amongst themselves, and then came to me to see which was right.

He continued:

'It is important that those who decide to go outside their professional practice should be fully aware of the fact that the honour of their profession is in their hands. (Hear, hear.) They should, where possible, do everything they can to support their profession in industry and commerce and to maintain the highest standard of honesty and integrity.' (Applause.)

Replying to the toast, Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, commended the Institute's summer courses, emphasizing their value. He also spoke highly of the value of the recent autumnal meeting at Torquay.

Carr-Saunders Report on Education for Commerce

Outlining the help that is offered to articled clerks during their education and training, Mr Boyce continued:

'You all remember the Carr-Saunders Report on Education for Commerce and the misgivings on the part of the Council in case its recommendations should be implemented. You will also remember that the Council issued in booklet form a report on *Education and Training for Membership* in which sound reasons were adduced to show that the recommendations of the Carr-Saunders Committee are wholly inappropriate for persons wishing to become members of the Institute.

'It appeared evident that the Minister of Education intended to implement at least some of the recommendations of the Carr-Saunders Committee, and with the object of removing any misunderstandings which might exist it was arranged that a deputation from the Institute should meet senior officials of the Ministry of Education. The reception accorded to the deputation was most friendly and the Institute's methods of training articled clerks were fully explained and discussed.' (Applause.)

'As the outcome of this meeting, it was clearly understood that the Ministry had, and has, no intention of interfering in any way with the profession and would not consider any move which might affect the interests of the Institute, without full prior discussion with the Institute.' (Applause.)

'It is a great relief to know that the system of training under articles which has stood the test of time is not likely to be disturbed.' (Hear, hear and applause.)

The toast of 'Our Guests' was proposed by Mr Andrew Whyte, A.C.A., and Mr T. H. Tilley, President, the Durham and North Yorkshire Law Society responded.

A tribute to Mr C. H. W. Sansom, A.C.A., Hon. Secretary of the Branch, by Mr Ringquist, was greeted with acclamation.

NOTES AND NOTICES

The Institute of Chartered Accountants in Ireland

QUARTERLY MEETING OF THE COUNCIL, NOVEMBER 1951

At the quarterly meeting of the Council on November 27th, 1951, the following were present:

Mr H. E. A. Addy, *President* (in the chair); Mr P. Butler, *Vice-President*; Messrs J. Baily, F. Cleland, W. H. Fitzsimons, E. P. O'Carroll, H. Trevor Montgomery, P. J. Purtill, and W. L. H. Rodden, with Messrs Wm. Edmiston Crawford, *Secretary-Treasurer*, and H. Stevenson, *Joint Secretary*, in attendance.

Apologies for absence were received from Messrs E. T. McCarron and G. Hill Tulloch.

Mr G. Francis Klingner, Dublin, was co-opted to fill the vacancy on the Council created by the resignation of Mr R. Stanley Stokes.

Mr Edward Lambart Barrett, Dublin, and Mr Vincent Eugene Lennon, Armagh, Associates in practice, applied for and were admitted to Fellowship.

Applications by the following members of The Institute of Chartered Accountants in England and Wales for exemption from the examinations of the Institute and for admission to membership were acceded to under bye-law 82:

Mr James E. Doherty, Sligo, as an Associate in practice.

Mr William T. Underwood, M.A., Belfast, as an Associate not in practice.

The terms of a circular letter to members stating the attitude of the Council in regard to changes in the appointment of auditor or professional accountant were further considered and settled.

Recommendations by the Council for the guidance of members on the question of the collaboration of accountants and solicitors in the drafting and settling of memoranda and articles of association of companies, as drafted by the committee appointed at the last meeting were approved.

It was reported that the memorandum prepared by the committee of members in Northern Ireland and approved by the Council, containing submissions on behalf of the Institute for consideration by the Royal Commission on the Taxation of Profits and Income, had been lodged with the Commission.

On a report from the Investigation Committee it was decided that a special meeting of the Council should be convened under bye-law 107 to consider the suspension or exclusion from membership of members whose annual certificate fees or subscriptions for the year 1951 had not been paid.

It was reported that since the last quarterly meeting, on August 31st, 1951, 45 certificates of exemption from the Preliminary examination had been issued – 31 to Eire candidates and 14 to Northern Ireland candidates – making a total of 70 issued this year to date, compared with 75 to the same date last year; articles of clerkship registered in the same period numbered 35 – 24 in Eire and 11 in Northern Ireland – making the total registered this year to date 60, compared with 68 to the same date in the previous year.

Personal

MESSRS NAPIER, HENDERSON, BRACE & CO, Chartered Accountants, announce that they have removed their offices from 1A Southampton Row, WC1, to 30 Craven Street, Strand, London, WC2. Telephone: Whitehall 0071–2.

MESSRS GORE & CO (HENRY I. JACOBS, F.C.A., and G. DAVID LEIGH, F.A.C.C.A.), formerly of Fulwood House, Fulwood Place, High Holborn, WC1, announce that on December 1st, 1951, their offices were removed to National Bank House, 101–103 Baker Street, London, W1. Telephones: Welbeck 8265–7.

MESSRS JACOBS & LEIGH, formerly of Fulwood House, Fulwood Place, High Holborn, WC1, announce that on December 1st, 1951, their offices were removed to National Bank House, 101–103 Baker Street, London, W1. Telephones: Welbeck 8265–7.

MESSRS INGHAM & CO, Chartered Accountants, announce that as from December 1st, 1951, they have removed their offices to 202 Stanley Road, Bootle, Liverpool, 20. Telephone: Bootle 1544.

MESSRS J. C. THOMSON & CO, Chartered Accountants, of 116 Hope Street, Glasgow, C2, announce that Mr JAMES GARDEN CORNWALLIS THOMSON, C.A., son of the late JAMES CORNWALLIS THOMSON, C.A., who founded the firm, has been assumed as a partner as from October 1st, 1951. The firm name will remain unchanged.

MESSRS COOPER BROTHERS & CO, and MESSRS COOPER BROTHERS, HOCKEY, KING & CO, announce that they have opened an office at Barclays Bank Buildings, P.O. Box 191, Limbe, Nyasaland.

Chartered Accountant's Double Jubilee

SIR J. STANLEY HOLMES, M.P., F.C.A.

This year, Sir J. Stanley Holmes, chartered accountant Member of Parliament for Harwich, has celebrated the jubilees both of his membership of the Institute, and of his directorship of the North-West Building Society, of which he has been chairman since 1939.

Sir Stanley Holmes was admitted an Associate of the Institute in 1901 and elected to fellowship in 1908. An exceedingly pleasant little ceremony marking his other jubilee took place recently at *The Savoy Hotel* when, after a luncheon party, he was presented by his co-directors of the North-West Building Society with his portrait in oils – painted by Mr Henry M. Carr. The portrait will hang in the Society's boardroom.

Second senior Vice-President of the Building Societies' Association, Sir Stanley Holmes is senior partner in the firm of Messrs Stanley Holmes & Co, Chartered Accountants, of London and Bristol. He represented North-East Derbyshire in Parliament from 1918 to 1922, and has been elected for Harwich since 1935.

Conservative Party Trade, Finance and Industry Committee

Mr G. P. Stevens, M.P., F.C.A., has been elected joint honorary secretary of the Finance and Trade and Industry Committee of the Conservative Party for the 1951–52 session. Mr Stevens is a partner in the firm of Messrs Pannell, Crewdson & Hardy, Chartered Accountants, of London, and is Member of Parliament for the Langstone Division of Portsmouth.

The Manchester Society of Chartered Accountants

A meeting of the Manchester Society of Chartered Accountants will be held on Monday next, December 10th, at 6 p.m., and will be addressed by Mr E. H. Davison, A.C.A., chief accountant of Courtaulds Ltd, on 'The meaning of equity holdings'.

The meeting will be held at the Chartered Accountants' Hall, 60 Spring Gardens, Manchester, 2.

South-Eastern Society of Chartered Accountants

SOUTHAMPTON MEMBERS' GROUP

The annual general meeting of the Group was held at *The Royal Hotel*, Southampton, on Monday, December 3rd, 1951, with Mr P. D. Irons, B.COM., A.C.A., in the chair. Officers for the ensuing year were elected as follows:

Chairman: Mr John H. Mitchener, F.C.A.
Vice-Chairman: Mr W. H. Green, A.C.A., A.S.A.A.
Secretary: Mr K. P. Bennett, A.C.A.

After the formal business of the meeting, members were addressed on 'American annual reports', by Mr P. Livingstone Armstrong, A.C.A., followed by discussion and examination of a selection of American, British and Dominion reports.

Southend-on-Sea Chartered Accountants' Group

The members of the Group are holding their annual dinner on Wednesday, December 19th, 1951, at *The Palace Hotel*, Southend-on-Sea, at 6.45 p.m. for 7 p.m. The committee cordially invite members either in practice or in commerce residing in the locality to attend this function, and they should communicate with Mr K. B. Price, A.C.A., 24 Warrior Square, Southend-on-Sea, for further particulars.

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The Corporation of Certified Secretaries

The Provincial Dinner of the Corporation of Certified Secretaries was held on November 17th, at *The Adelphi Hotel*, Liverpool, and Alderman A. T. Pike, O.B.E., J.P., F.C.C.S., Chairman of the Corporation presided.

The toast of 'The City and Trade of Liverpool' was proposed by Mr H. V. A. Raikes, M.P., and the Lord Mayor of Liverpool, Alderman Vere Egerton Cotton, C.B.E., T.D., J.P., responded. Mr H. S. Magnay, M.A., Director of Education, Liverpool, proposed the toast of the Corporation and referred to the Corporation's strength of nearly 10,000 members and students both in this country and in the Commonwealth.

Business Efficiency Exhibition

The 1952 Business Efficiency Exhibition will open at Bingley Hall, Birmingham, on February 19th, 1952. During the ten days of the exhibition the office equipment industry will present its latest aids for labour saving in the office, and will give British buyers the first opportunity of new equipment; for unlike other years, the exhibition is being held before the British Industries Fair, where there is always a large office equipment section for the benefit of buyers from abroad.

Recent Publications

SPECIMEN ANSWERS TO THE QUESTIONS SET AT THE INSTITUTE OF CHARTERED ACCOUNTANTS' FINAL EXAMINATION, MAY 1951, with Copies of the Questions. 7*s* 6*d* net. 14×8½. Portfolio. Study Services Ltd, London.

FINANCING OLD-AGE PENSIONS, A PERSONAL VIEW BY MONTEATH DOUGLAS. 16 pp. pamphlet. Canadian Tax Foundation, 4 Carlton Street, Toronto, 2.

TREASURER'S ACCOUNTS, 1950–51, of the City of Bradford. xv+429 pp. 10×7½. Treasurer's Office, Bradford.

THE STOCK EXCHANGE OFFICIAL YEAR-BOOK, 1951, Vol. II. cclv+2179 pp. 10×7. Price for the two annual volumes, £6 net; by post inland, £6 2*s* 6*d*. Thomas Skinner & Co (Publishers) Ltd, London.

REGISTER OF DEFUNCT AND OTHER COMPANIES, 1951. iv+501 pp. 10×6½. £1 net. Thomas Skinner & Co (Publishers) Ltd, London.

INDUSTRIAL INTERNAL AUDITING, by W. A. Walker, C.P.A., and W. R. Davies, C.P.A. vii+329 pp. 9½×6. 42*s* 6*d* net. McGraw-Hill Publishing Co Ltd, London.

ABSTRACT OF THE TREASURER'S ACCOUNTS OF THE CORPORATION OF HORNSEY FOR THE YEAR ENDED MARCH 31ST, 1951. xiii+106 pp. 10×6. Borough Treasurer, Town Hall, Crouch End, London.

ABSTRACT OF ACCOUNTS, 1950–51, of the City of Coventry. 492 pp. 9½×7½. City Treasurer, The Council House, Coventry.

REVIEW OF THE FINANCIAL ACTIVITIES OF THE CORPORATION OF THE CITY AND ROYAL BURGH OF EDINBURGH FOR THE YEAR 1950–51. 275 pp. 8½×5½. City Chambers, Edinburgh.

Our Contemporaries

THE ACCOUNTANTS' JOURNAL. (Wellington.) (September.) 'Observations on the Valuation of Shares', by G. A. Lau, LL.D.(LG.), M.COM.(N.Z.), A.P.A.N.Z.

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (October.) 'Management Problems in the Professional Office', by Paul Bruneau, L.SC.(COM.), C.A.

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (October.)

Other Publications Received

THE FEDERAL ACCOUNTANT. (Melbourne.) (September.)

INTERNE BEDRIJFS ORGANISATIE. (Amsterdam.) (November.)

JOURNAL OF THE INDIAN INSTITUTE OF ACCOUNTANCY AND TAXATION. (New Delhi.) (September.)

THE ACCOUNTANCY JOURNAL. (Delhi.) (September.)

REVISION OG REGNSKABSVAESEN. (Copenhagen.) (September-October.)

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF DECEMBER 9TH, 1876

Concluding paragraph of an article, entitled:

Accountants and Solicitors

It will be seen from the foregoing that there is a wide field in which accountants may honourably employ themselves without fear of interfering with the legitimate work of solicitors. We will conclude by repeating one or two warnings which counsel has thought well to give the profession. 'To bring accountants within the penalties of the statute', it is stated, it is not necessary that they should 'make a separate charge for the document drawn, it will be enough if they are paid for services generally, and draw the instruments in question as a part performance, or to assist in the performance of such services.' Then, in drawing up any documents of a legal or quasi-legal character, 'the fact that they are not prohibited from doing so by any statute will be no defence to an action for negligence, if any damage be occasioned through ignorance of legal technicalities'. This cannot be too well borne in mind by many others besides accountants.

ANNOTATED TAX CASES

Edited by ROY E. BORNEMAN *of Gray's Inn, Barrister-at-Law*

Published at frequent intervals. Reports of Income Tax, Sur-Tax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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NON-PRACTISING MEMBERS OF THE INSTITUTE

THERE is an announcement of unusual and wide interest in the report of the proceedings at a meeting of the Council of The Institute of Chartered Accountants in England and Wales held on December 5th, 1951, published elsewhere in this issue.

The Council has decided to constitute a sub-committee of the General Purposes Committee, to be known as the General Purposes Sub-committee (Non-practising Members). The function of this sub-committee will be to advise the Council on matters relating to the interests of non-practising members of the Institute; and it will consist of the four (later to be five) non-practising members of the Council, together with three members of the Council in practice.

The establishment of this sub-committee is a logical development of a policy which has been consistently pursued by the Council over the last ten years – a policy of increasingly drawing into Institute affairs the experience and ability of members who have taken whole-time employment in industry and commerce. The establishment of the Taxation and Research Committee in 1942, with its system of regional Taxation and Research Committees throughout the country, was the first major step in this direction taken by the Council. It was followed in 1943 by the appointment to the Council for the first time of a non-practising member; and in 1948 by the appointment to the Council, also for the first time, of an Associate member of the Institute.

The significance of this latest development, which is now announced, is the clear evidence it gives of the Council's desire to have a due regard for the interests of its non-practising members. Moreover, the presence on the sub-committee of three members in practice will ensure not only that consideration is given to matters affecting the interests of non-practising members employed by practising accountants, but also that the concerns of members in industry and commerce are properly integrated with those of members in practice.

The foundation of the Institute is, and must remain, the practice of public accountancy. Nothing but good, however, can come from a policy of building on that foundation an edifice in which all members, whether in practice or not, can play their parts and make their several contributions to the status and well-being of the Institute. The Council is to be warmly congratulated on a step which will, we are sure, be widely welcomed in the profession.

CONTROL OF CAPITAL AND CREDIT

THE Government's policy in relation to new capital issues and to credit generally has now been made known in a written Parliamentary answer, reproduced elsewhere in this issue.

The new instructions to the Capital Issues Committee are in the form of a letter from the CHANCELLOR OF THE EXCHEQUER to the chairman, LORD KENNET. They are in line with the instructions given last April by MR BUTLER's predecessor, MR GAITSKELL, except that they are couched in more vigorous and urgent terms. However, MR BUTLER, unlike his predecessor, makes no specific reference to the question of bonus issues, nor to the need for limiting dividends or discouraging transactions which are in a form likely to reduce tax liabilities. It may well be that the problem of tax avoidance by bonus issues and the like is now regarded as solved by the Finance Act, 1951.

MR BUTLER urges the Committee to submit all applications to a

> 'very strict and searching scrutiny, with a view to eliminating any project which is not likely to produce positive results commensurate with the demands which it will make on the limited available resources'

– a difficult task. Applications in respect of projects for unessential goods, especially those for the home market and particularly if using metal, are to be 'discouraged'.

A feature which is new and remarkable is the instruction that where an application is made for long-term finance for the purpose of funding a bank advance already made, the Committee is to have regard only to the eligibility of the project for which the finance is sought and not to the fact that the money has already been borrowed. This new instruction is in effect retrospective since it is not confined to bank advances to be made in the future. Some concerns which have already borrowed money from the bank, and spent it, may find themselves in serious difficulties when their applications for long-term finance are rejected. The bank may feel compelled to call in the loan, while the concern may be quite unable to switch its new project over to a purpose which falls within the list of priorities.

In carrying out its duties, which seem to call for a superhuman omniscience, the Capital Issues Committee is to have, as hitherto, the advice of the appropriate Government departments. Here again there is a slight change in the wording used by the CHANCELLOR. MR GAITSKELL instructed the departments that their advice was to be 'specific in character'; MR BUTLER wants the Committee to have 'clear and realistic' advice and is therefore instructing the departments to

> 'consider in a critical spirit all applications which are referred to them'.

One can hardly envy the lot of the officials whose duty it is to transform these subtle changes in wording into practical action.

Like his predecessor, MR BUTLER couples with his instructions to the Capital Issues Committee certain complementary recommendations to the banks. The latter are to 'continue to intensify' their efforts to restrict credit to essential purposes, particularly defence and exports. Although these new recommendations differ in wording from those of MR GAITSKELL their effect is almost exactly the same. MR GAITSKELL, in requesting the banks to maintain restraint in credit policy, asked specifically that the banks should ensure that advances were not made for the increased finance of hire-purchase, particularly of consumer goods, for any speculative purposes, or for capital expenditure or investment which would conflict with the principles guiding the Capital Issues Committee. MR BUTLER asks that notwithstanding the statutory exemption from control of borrowings made in the ordinary course of business, bank advances should not in general be made for capital expenditure. For the rest he enjoins that banking facilities should not be given for speculative buying or holding of securities, real property, or commodities and that the finance of hire-purchase should be 'limited'. Here again, bank officials will be much exercised to extract the essential changes in policy from this slightly different wording.

On the whole it is clear that notwithstanding the change of Government, or the CHANCELLOR'S words as to the 'new' attempt to grapple with our economic difficulties, as far as the control of borrowing and capital issues is concerned, the mixture is very much as before.

CHARGING ORDERS ON SHARES

by SPENCER G. MAURICE, Barrister-at-Law

SECTION 14 of the Judgments Act, 1838, empowers a judgment creditor to apply to the Court for a charging order in his favour on stock and shares standing in the name of the debtor in his own right, or in the name of any person in trust for him. If the Court makes an order the creditor is then entitled to the remedies which he would have had if the charge had been made in his favour by the judgment debtor, but it is provided that he is not to have the benefit of the charge until after the expiration of six months from the date of the order. It is to be observed that 'stock and shares' does not include debentures: as was pointed out by the Court of Appeal in *Sellar v. Charles Bright & Co Ltd* ([1904] 2 K.B. 446), a debenture-holder is not a member but a creditor of a company.

By Section 15 of the Act the order is in the first place to be an order *nisi*, but unless the debtor, within a time to be mentioned in the order shows cause to the contrary, the order is, after notice to the debtor (or his attorney or agent), to be made absolute. Then follows a proviso that the judge shall, upon application by the debtor or any person interested, have full power to discharge or vary the order.

'In His Own Right'

The meaning of the words 'in his own right' with reference to shares in a company was considered in *Pulbrook v. Richmond Consolidated Mining Co* ((1878) 9 Ch.D. 610). In that case Sir George Jessel, M.R., held that where the articles of association of a company required that a director should hold shares 'as registered member in his own right', beneficial ownership of shares was not necessary in order that a director might be duly qualified. It is to be observed, however, that the learned Master of the Rolls founded his judgment on the words 'as registered member', words which do not appear in Section 14 of the Judgments Act. *Pulbrook v. Richmond Consolidated Mining Co* was discussed in *Cooper v. Griffin* ([1892] 1 Q.B. 740), where Lord Coleridge, C.J., said in the Divisional Court of the Queen's Bench Division:

> 'The intention of the Legislature is, I think, clearly shown to charge that only which is the debtor's real and true property, and not to charge shares which, though they may stand in the name of the debtor, are not his real and true property.' (At pp. 743, 744.)

Clearly an order is illusory and of no effect unless the shares stand in the name of the debtor in his own right, in the sense of beneficially as well as legally, or in the name of some person in trust for him.

The Basic Principle

The principle had, indeed, been recognized in *Gill v. Continental Union Gas Co* ((1872), L.R. 7 Ex. 332). In that case, where a mortgage had been created by a deposit of share certificates together with a blank transfer, it was held that the judgment debtor in whose name the shares stood had no beneficial interest in them; consequently, the company was not precluded from permitting the transfer of the shares after notice of a charging order *nisi* and before the making of it absolute. Referring to *Gill v. Continental Union Gas Co*, Vaisey, J., said in the recent case of *Hawks v. McArthur and Others* ([1951] 1 All E.R. 22, 25):

> 'There is, undoubtedly, a basic principle that a charging order only operates to charge the beneficial interest of the person against whom the order is made, and that it is not possible, for instance, to obtain an effective charging order over shares where the person against whom the order is made holds them as a bare trustee. The charging order affects only such interest, and so much of the property affected, as the person whose property is purported to be affected could himself validly charge.'

Failure to Comply with Articles

M., the first defendant in *Hawks v. McArthur*, held 500 ordinary shares in a private company, of which he was the managing director. He agreed to resign from his office as director, and it was agreed that the company should find a purchaser for his shares. The company's articles of association contained stringent provisions restricting the transfer of shares, but these provisions were ignored and two transfers of the shares were executed, one, on September 16th, 1949, in respect of 200 shares in favour of R., the company's manager, and the other, on September 21st, 1949, in respect of 300 shares in favour of F., the chairman of the board of directors. Each transferee, when agreeing to purchase shares belonging to M., further agreed to hold the shares which he took as beneficial owner if no other member of the company wished to purchase them, or, if any other member or members

wished to exercise the right of pre-emption given to members by the articles, to hold the shares as trustee for such member or members. R. and F. paid to M. the full purchase price for the shares which they took, but they remained registered in M.'s name.

On October 4th, 1949, the plaintiff recovered judgment and costs in an action against M., and was granted leave to proceed under the judgment. On the same day he obtained a charging order on the shares in the company standing in the name of M., and this charging order was made absolute on October 17th. The plaintiff contended that, as the provisions in the company's articles regarding the transfer of shares had not been complied with, the purported transfers to R. and F. were completely void, so that the whole property in the shares – that is, the property both legal and equitable – remained in M.

The plaintiff accordingly sought to show that the charging order operated effectively upon the shares. R. and F., the second and third defendants, contended that by October 4th, the date of the order *nisi*, the beneficial interest in the shares was already vested in them, and that M. had no interest in the shares on which the charging order could operate.

The Real Question

It appeared from the evidence that there had been agreements between R. and the company and F. and the company, by which R. and F. agreed to relieve the company of its obligation to find purchasers for M.'s shares, but the arrangement necessarily implied further agreements between R. and M. and F. and M., and, as Vaisey, J., pointed out, the real question which he had to decide was whether those latter agreements operated so as to amount in equity to a transfer of the shares held by M., as to 200 of them to R., and as to 300 of them to F., or whether the failure to comply with the procedure for the transfer of shares laid down in the articles of the company completely vitiated the whole transaction, so that the transfers were worthless and there had been a total failure of consideration for the moneys paid over to M. by R. and F.

For the plaintiff it was contended that the matter was governed by *Hunter v. Hunter and Others* ([1936] A.C. 222) which was said to be authority for the proposition that R. and F. got nothing for their money or from the transfers executed in their favour. *Hunter v. Hunter* concerned a mortgagee's power of sale over shares, and decided that restrictions on the right to transfer may interfere with the exercise of such a power.

Special Position of a Mortgagee

Hunter v. Hunter received consideration by Black, J., in the Court of first instance in Ireland in *In re Hafner, Olhausen v. Powderley* ([1943] I.R. 426), and that learned judge took the view that it was of the first importance that *Hunter v. Hunter* was concerned with a sale by a mortgagee, and that the case must be considered with that characteristic in mind. Vaisey, J., accepted that as being the basic and essential difference between *Hunter v. Hunter* and the case before him. His lordship accordingly found it possible to distinguish *Hunter v. Hunter* in deciding *Hawks v. McArthur* and said ([1951] 1 All E.R. 27):

> 'On general principles, in such circumstances as those of the present case where a man who has an interest in shares in a company receives something for the sale of those shares and executes under seal a transfer of those shares for that purpose, I cannot bring myself to suppose that *Hunter v. Hunter* constrains me to hold that everything done in that transaction is a complete nullity.'

It seemed to the learned judge that the important thing about the case before him was that R. and F. paid M. money for the shares, and his lordship could not bring himself to suppose that they got nothing by their bargain and that the whole property in the shares remained in M., notwithstanding the transfers which had been executed and the moneys which he had received.

A Matter of Priorities

Once it was decided that the failure to comply with the articles of the company was not enough to vitiate completely the transactions between R. and M. and F. and M., it was merely necessary to decide whose rights should prevail – the plaintiff's, or those of R. and F. Since there was no question that M. was still the legal owner of the shares (his name as owner of them never having been removed from the share register of the company), there was equally no question that any rights which the plaintiff on the one hand and R. and F. on the other hand might have could only be equitable rights. Since the transfers to both R. and F. had been executed prior to the date on which the plaintiff obtained the charging order, Vaisey, J., was bound to conclude that, as between the legal merits of the plaintiff and R. and F., the rights of R. and F. must prevail over those of the plaintiff. His lordship accordingly dismissed the summons and held that the charging order was nothing but a charging order *nisi*.

THE INSPECTOR OF TAXES INTERROGATES
TWO PEOPLE WHO WISH TO GET MARRIED

by WILFRED TULLETT, F.S.A.A.

The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.

SCENE: *An Inspector of Taxes' office south of the Border, early in the month of March. The Inspector is wearing a sprig of heather in his lapel. He is very cheerful, as he is shortly going on leave. The telephone rings.*

INSPECTOR: Yes?

CLERK: A young lady and gentleman to see you, sir. I think they are Scottish. I have told them that as they have no appointment you may not be available.

INSPECTOR: Oh, send them up, Jenkins. I have a few minutes to spare.

(*The Inspector sits drumming his fingers on the desk. There is a knock at the door, and a Scotsman in a kilt enters, followed by a pretty girl in a tartan skirt. They are both young. He is older than she is.*)

INSPECTOR: Good afternoon. Do take a seat.

SCOTSMAN: Thank you. My name is Andrew MacVerycareful, and this lady is my fiancée, Jean McLookahead. As we have no appointment, it is good of you to see us. We hardly liked to trouble you but. . . .

INSPECTOR: Please do not worry. I am glad that I am free to fit you in. Just what can I do for you?

ANDREW MACV.: Well, as I say, Miss McLookahead is my fiancée . . . (*there is a very long pause*).

INSPECTOR (*helping*): Yes?

ANDREW MACV.: We are thinking of getting married . . . sometime. . . .

INSPECTOR (*encouragingly*): That is not an unnatural thing to do, if I may say so.

ANDREW MACV.: You see, we have been kind of talking it over. .

INSPECTOR: And when is the happy day to be?

ANDREW MACV. (*heavily*): As I was saying, Inspector, we have been talking it over, but that is as far as we have got. It is a serious step, is it not?

INSPECTOR (*amused*): Very, but if you have talked the matter over, surely. . . .

ANDREW MACV. (*dolefully*): It is not as easy as that.

INSPECTOR: Well, what *is* your difficulty?

ANDREW MACV.: We cannot decide on a date.

JEAN McL. (*butting in*): Andrew has not got it quite right, Inspector. He means *he* cannot decide on a date. I do hope that *you* can help us.

INSPECTOR (*now completely fogged*): This is a bit out of my line of country, but of course I will help you if I can. How long have you been engaged?

JEAN McL.: Nearly five years.

INSPECTOR: That seems a long time.

JEAN McL.: It *is* a long time. Andrew says it is the income-tax position which keeps bothering him. He does not know where we shall stand in the year we get married.

ANDREW MACV.: That's it. That is the problem, Inspector. That is what we have come about.

INSPECTOR (*seeing light*): It does not seem much of a problem to me.

ANDREW MACV.: It's like this. You will have gathered that I am a Scotsman, and like a lot of Scotsmen I have come to England, and I do not intend to go back.

INSPECTOR (*his eyes twinkling*): I had gathered *that.*

ANDREW MACV.: Then you will begin to appreciate the position. As a Scotsman, I like to have my money affairs on a sound basis. At the moment we both get a single person's allowance, do we not?

INSPECTOR: Yes.

ANDREW MACV.: But when we get married, our married allowance is less than our two single allowances added together. That is a matter carefully to be considered, is it not?

INSPECTOR (*dryly*): What you say is quite true, but I would have thought. . . .

ANDREW MACV. (*to his fiancée*): There you are, Jean! That's what I told you!

JEAN McL. (*desperately*): Surely, Inspector, there are two sides to it. Is there not *something* you can do to help us?

INSPECTOR (*now on the girl's side*): *Of course* there is.

JEAN McL.: Oh good! I thought there *must* be something.

INSPECTOR: Mr MacVerycareful is overlooking at least four matters. Let us take your case first, Miss McLookahead. If you are married before the end of the tax year, *you* will receive a full single woman's allowance just as if you had been single *all* the year.

JEAN McL. (*triumphantly*): Do you hear that, Andrew?

ANDREW MACV.: Aye.

INSPECTOR: Now for the second point. If you, Mr MacVerycareful, are married before the end of the tax year, *you* will receive the full married man's allowance, even if you have been married only for a day or two *in* the year.

ANDREW MACV. (*excitedly*): Do you mean that my . . . my wife . . . would receive the full single person's allowance, and that I would receive the full married allowance both at the same time?

INSPECTOR: That is the position. It evens things up a bit, don't you think?

ANDREW MACV.: It seems a queer law to me, but go on, Inspector, you have got me very interested.

INSPECTOR: Have you any life assurance?

ANDREW MACV.: No, not yet. I was waiting until I got married. Why do you ask?

INSPECTOR: It is not long now until the end of the tax year. So do it now.

ANDREW MACV.: Now! Why?

INSPECTOR: Because if you can get it settled before the end of the tax year, you will get a full year's allowance on the premiums, even if the policy has run only for a few days.

ANDREW MACV.: Well . . . the Scots would not have managed it like that if it had been left to them. However, you said that there were four matters. What is the fourth one?

INSPECTOR: The fourth one depends on whether or not you have paid tax in the year. With all your allowances you *may* be entitled to a repayment of tax, perhaps (*slyly*) sufficient to pay for the wedding.

ANDREW MACV. (*completely flabbergasted*): *Well*, can you beat that!

JEAN MCL. (*coming in again quickly*): So there is nothing now to wait for, is there, Andrew? The Inspector has cleared it all up!

ANDREW MACV. (*thoughtfully*): No, it all seems in order . . . but (*as a thought strikes him*) do you not think that people will say that we have rather rushed it to avoid the income-tax, Jean?

JEAN MCL.: I don't mind what they think!

ANDREW MACV.: You have indeed been very helpful, Inspector, but tell me, just as a point of interest, on what date were *you* married?

INSPECTOR (*laughing*): As a matter of fact, and between ourselves, I was married on the fourth of April!

ANDREW MACV. (*really roused*): Well, I'm blest! What do you think of that, Jean?

JEAN MCL. (*lightly*): That clinches it for us, dear, doesn't it? The Inspector ought to know. Thank you a lot, Inspector. We will make our date the fourth of April. I will send you a piece of cake. What do you say, Andrew?

ANDREW MACV.: The fourth of April it will have to be. Every Budget day will be a reminder. You see, Inspector, we just *had* to come to see you. It's better to be certain than sorry, don't you think?

INSPECTOR: I would not like to tell you *what* I think. Good luck to both of you!

SOME REFLECTIONS ON INDUSTRIAL PROFITS–II

by H. P. FINN, A.C.A.

Taxation of Profits

HITHERTO I hope we have been fairly successful in keeping both feet firmly on the ground, but in dealing very briefly with taxation of profits I would like to venture upon a short flight into the realms of speculation.

There has always been an element of gambling about the taxation of profits in that it is impossible to foresee what may lie ahead in the shape of future tax rates or new taxes. One may congratulate oneself on a series of fortunate chances which have resulted in a very low taxable profit for a certain year, perhaps when tax rates were high, only to find later that this particular year becomes a standard year for an excess profits tax so that the low profit operates disadvantageously. In the same way the fact that one was able to secure only a moderate rate of wear and tear for certain assets may prove later to be a blessing in disguise, if tax rates begin to rise sharply.

That being so I have always been a trifle surprised at the great care with which most of us (including the Inland Revenue) strongly argue for this or that temporary advantage and insist upon methods of exhaustive detail and meticulous accuracy in making calculations – say of capital allowances and so forth – when in the long run either it matters not whether great care was or was not exercised or the painstaking effort to secure the maximum legitimate advantage proves to have produced the minimum.

For instance the advantages claimed for initial

The second and concluding part of an address delivered on September 11th, 1951, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford. The first part of the address appeared in our last issue.

allowances have always seemed to me to be rather illusory. It was said that these represented an interest-free loan to assist industry to finance urgent re-equipment. In many cases, however, they seem to have acted in a rather odd fashion. For instance a company which needed a piece of plant in January 1948 costing £1,000 had first of all to find the money itself. In its tax computations based on the year 1948 it received an initial allowance of 20 per cent of £1,000, or £200, so that its tax assessment for 1949–50 was reduced by £200 making a cash reduction in the tax liability due on January 1st, 1950, of 9*s* in £ on £200, or £90. Tax of course has since risen to 9*s* 6*d* in £ so that, in effect, it is £95 which will have to be 'repaid' by reduced annual allowances if the rate of tax continues as at present. It does not strike me as a particularly generous gesture, after telling a man you are going to give him a tax-free loan to help him find the £1,000 he needs in January, 1948, to offer him £90 in January, 1950, and then expect him to repay £95. Then again, in computing wear and tear, there were all those complications of additional fourths and fifths; and even now there is the absurd anomaly that annual allowances are expressed to be five-fourths of what is just and reasonable – so that by definition the allowances given are unjust and unreasonable!

One cannot help wondering whether any ill consequences would follow if the Inland Revenue announced that industrial concerns which wished to do so could write off all capital expenditure on assets liable to wear and tear as and when the expenditure was incurred. The enormous number of individual transactions would, I believe, allow the law of averages full play so that the effect on taxation receipts by the Exchequer should almost immediately become negligible; at the same time the complications of detailed capital allowance computations would be entirely avoided. Assets not subject to wear and tear like land would no doubt still have to be capitalized and possibly exceptional treatment might have to be accorded to assets, like buildings, which become critically worn and torn only after a long period has elapsed since their construction.

Such a practice, however, would not satisfy those who take the view, rejected by the Millard Tucker Committee, that taxable profits should take proper account of changes in the value of money. Ultimately, of course, the Chancellor of the Exchequer takes from industry in the form of taxation what he requires to budget; and arguments that profits for taxation purposes ought to be computed on principles which produce less taxable profits are really, in the final analysis, pleas for lower taxation. If 'profits', which the directors are convinced ought to be kept in hand to provide for the maintenance and replacement of the fixed assets and working capital of the company, are to be in great part snatched away by the Chancellor then there is the risk – in some cases amounting to certainty – that sooner or later the company will be unable to continue in business, at its existing scale of activity, without new capital.

The problem is essentially a political one – and as accountants we can do little more than point out the inevitable effect. Certainly this is a matter on which we and the economists ought to agree whole-heartedly. I see from paragraph (131) of the Tucker Report that some witnesses suggested that industry should be relieved from tax altogether on undistributed profits. At first sight this seems rather an extreme suggestion, but I am not at all sure that ultimately it is not the logical solution. After all industry in this country today is largely owned by numerous small shareholders; and the tendency for the private owner and the large shareholder to disappear is increasingly stimulated by the high levels of taxation and estate duty. The only profits of a company which are 'enjoyed', so to speak, are those distributed in dividends. The profits retained are, in times of inflation, increasingly required to keep the company in being at its existing scale of activity and therefore, in many cases, they are essential to ensure employment to the workpeople and a source of supply to the consumers of the goods it deals in. Of course the ploughing back of profits must also be of benefit to the shareholder, by keeping up the value of his shares; and it is often objected, to the proposal that industrial profits should be given preferential tax treatment, that this would be unfair to those whose savings are invested otherwise – say in their own houses or in gilt-edged securities. Nevertheless it is so much in the interests of the country that money should be readily available for industrial maintenance and development that we ought not to shrink from making use of taxation as an instrument in achieving that result. We cannot pursue the matter further now, but I see no reason why some equitable arrangement could not be worked out; for example it might be necessary to provide that any persons who bought or subscribed for shares in an industrial concern could have the cost of them allowed as an expense against his personal taxable income, but that tax would be payable on the proceeds of sale of any industrial shares by the person who sold them. Increases in the value of shares attributable to the 'ploughing-back' of profits would then be taxed when realized and subject to estate duty on death.

The fact that a Royal Commission is now sitting on taxation is, I hope, a sign that old methods and principles are being reviewed in the light of today's conditions. After all, income-tax has been established for over 150 years and its general principles have altered surprisingly little since they were crystallized in the Act of 1842.

It is hardly necessary here to mention the labyrinthine complexities of our existing tax laws; we know, all of us, to our cost, the enormous expenditure – or wastage – of time and effort which they involve on the part of industry, the Inland Revenue, the Courts and the legal and accountancy professions. Certainly the time is more than ripe for a concentrated study to work out the best system of taxation to replace the existing system with all its defects; and I would enter

a strong plea in favour of simplicity and of boldness in putting forward quite new proposals if these would cut the Gordian knot of fiscal entanglements.

Conclusion

As accountants, we of course appreciate that when costs are rising, profits cannot be 'enjoyed' in full without impairing the undertaking; and we of course appreciate that the taxation of profits which are needed to finance stocks and equipment at rising prices must either impair the undertaking or reduce the share of profit which the shareholders can 'enjoy'.

In the first case we must forgo 'enjoyment' of part of the profits and in the second case attempt to bring home to our legislators the evil consequences of excessive taxation. We must make it clear beyond doubt that if Parliament intends to tax only profits which are available for the 'enjoyment' of shareholders, then it will fail in its object if it taxes profits required to renew stocks and depreciating assets.

We must also, I think, condemn the practice of asserting that particular profits are either 'reasonable' or 'excessive' if the assertion is based only on a comparison of published profits with capital, or even net assets, shown by published balance sheets. Indeed, I think we should go further and refuse to regard any comparisons as valid or useful unless they are made on a basis which would give an equitable result under varying conditions for different concerns; and one important pre-requisite of equity is that fixed assets should be included in capital employed at replacement values undiminished by depreciation.

I cannot think that these views conflict in any way with the presentation of profit and loss accounts to shareholders under the Companies Act in their established form prepared in accordance with long-settled principles of our profession. It does not in the least surprise me that the profit shown by a profit and loss account prepared in accordance with these principles is an unsuitable figure on which to compute taxability, to found or refute accusations of profiteering or to measure the national product. I conclude from this not that there is anything amiss with most published profit and loss accounts, but simply that their nature and purpose is widely misunderstood.

Every effort should be made to remove the misunderstanding; but this should be done by emphasizing the nature, true purpose and limitation of profit and loss accounts, not by so altering their nature that they subserve objects quite different from and even irrelevant to their true purpose.

Appendix A

Note on the Practice of Relating Profits to Employed Capital as a Criterion of their Reasonableness

The Select Committee of the House of Commons on National Expenditure which was appointed on the outbreak of the war, in their fourth report (1940–41 session), dealt in great detail with the contract procedure followed by the various services and Government Departments when ordering warlike and other stores. In Section IV of this report the committee discussed profits and emphasized the general determination to prevent a recurrence of the 'profiteering' experienced during the First World War. The report continued:

> 'Although on general grounds it is most important to prevent either employers or employees making personal capital out of the nation's misfortunes, it is needful to preserve a sense of proportion. Even if profits are at a level as high as 10 per cent of total costs, they represent only a relatively small proportion, 1/11th, of the full price to be paid.' (Fourth Report, 1940–41 Session of Select Committee of the House of Commons on National Expenditure, page 20, paragraph 55.)

After discussing the effect on contractors of 100 per cent excess profits tax, the report continued:

> 'Much time and effort have been spent on negotiations over the rates of profit to be allowed on Government contracts. The frequently difficult and protracted character of these discussions may be attributed in part to lack of agreement on the meaning of the term "rate of profit". The custom of many business men of measuring profit on a particular undertaking by reference to its total cost leads them to interpret this term as "profit expressed as a percentage of the costs of production". The acceptance of this meaning makes impracticable the attempt to establish a uniform fixed profit on Government contracts generally, since a profit so understood will give an inordinately high return on capital if turnover is increased. The Select Committee on National Expenditure of the last war, the Treasury Inter-Service Committee, the Treasury Committee on Contract Procedure, and the Committee of Public Accounts, have stressed the importance of considering the return on the contractor's capital employed in assessing a fair profit, and it is only in this way that the term "fair profit" can be given a precise meaning which remains applicable to a number of different contracts.' (Ibid, page 21, paragraph 58.)

The report went on to discuss whether it was possible to prescribe a single profit rate, based on capital employed, for all Government contracts – a proposal which had been under discussion during the 1914–18 War. At the time:

> '. . . it was recognized that rates could not be fixed without considering all branches of industry and that this could hardly be done by any department other than the Treasury but neither the Inchcape Committee nor the Colwyn Committee would undertake to lay down any scales of profit for departmental guidance; and at the date of the Armistice no conclusion had been reached.' (Ibid., page 22, paragraph 59.)

After saying that there were strong arguments in favour of retaining to some extent the method of bargaining so as to encourage enterprise the report continued:

> 'But the elimination of unnecessary bargaining on each individual contract offers such important advantages that every effort should be made to arrive at standard rates calculated with reference to a fair return on capital employed.' (Ibid., page 22, paragraph 61.)

At the end of its report the Committee appended its recommendations and, in relation to profits, these were as follows:

> 'That rates of profit should be related to capital employed; and that some degree of uniformity is highly desirable; but, since a simple fixed rate is hardly feasible, agreements to cover particular industries should be encouraged, though some flexibility should be retained to offer special incentives for special efforts.' (Ibid., page 36, paragraph 112.)

As is customary following the publication of reports of the Select Committee, comments by the various Government departments concerned were made and, published; and the comment of the Treasury concludes as follows:

'. . . a number of important factors . . . operate to exclude the possibility of there being any single rate of scale of profit which can be uniformly applied. The profit element must therefore remain one of the important subjects for negotiation. Nevertheless the Treasury agree that the present volume of contracting is such as to necessitate all possible simplification of procedure and they agree with the Committee that wherever possible agreements to cover particular industries should be encouraged. Some progress has already been made in this direction.' (Appendix 4 of Eighteenth Report, 1940–41 Session of Select Committee on National Expenditure, page 11, paragraph 4 (*c*).)

The Select Committee returned to this matter two years later in their Seventy-fifth Report (Fourteenth Report of the 1942–43 Session) where they referred to the Treasury comment quoted above and then continued:

'Since that date your Committee are glad to record that considerable progress has been made, and that a uniform general principle has been accepted by all the Supply Departments. This is that a standard percentage rate on capital should be allowed as a normal expectation for the reasonably efficient manufacturer, and that there should be a flexible "additional margin" to take account of special risks and efforts.' (Fourteenth Report of Select Committee, 1942–43 Session, page 63, paragraph 167.)

While the 'standard' percentage rate was 7½ per cent, the report went on to say that it had been clearly stated by the Treasury that all relevant circumstances were taken into account and there was no absolute maximum laid down. In practice there was established for each separate contractor a ratio between his total annual turnover at cost price and the value of all the capital employed in his business, and this ratio was used in order to establish appropriate profit margins for that particular contractor. This was done in the following manner. It was assumed that for all ordinary cases a reasonable profit to any contractor would be 7½ per cent on his capital employed. If a particular contractor turned his capital over, in sales at *cost* value, once per annum (i.e. had a 'capital/turnover ratio' of 1 : 1) then he would normally be entitled to 7½ per cent for profit margin on the *cost* incurred on any individual contract. On the other hand if he turned his capital over twice in a year (i.e. had a capital/turnover ratio of 1 : 2) then he would only be entitled for profit to half of 7½ per cent on the *cost* of any individual contract, i.e. 3¾ per cent. That is to say, the standard 7½ per cent on cost, for profit margin, was scaled down proportionately to the particular contractor's capital/turnover ratio. A small addition might be made, to the ultimate percentage so arrived at, for exceptional efficiency or risk by the contractor. At one time it was argued on behalf of some of the Government departments that this use of a capital/turnover ratio only worked one way, and that if a contractor had a ratio of greater than 1 : 1 he could not get more than 7½ per cent as a profit margin on his costs of production. It was claimed, in some quarters, that a ratio of more than 1 : 1 must involve a presumption of inefficiency on the part of the contractor.

An interesting statement appears in the Fourteenth Report for the 1942–43 Session of the Select Committee on National Expenditure under the heading 'The Technique of Settling "Right Prices" '. Reporting in November, 1943, the Committee says:

'The main conclusion, which in a broad way sums up all that can be said on this extremely complex matter, is that there has not yet been evolved a technique which solves satisfactorily the essential problem of how, in the absence of free competition, to settle the "right price" to be paid for a particular article. It is not easy to frame a definition of this expression which completely fits all aspects of every possible case. As a preface to Your Committee's observations it is sufficient to say that they interpret a "right price" as one which in normal conditions would be composed of two elements:

(i) *Cost* representing what cost ought to be with the maximum practicable efficiency; and

(ii) *Profit margin* so adjusted from time to time as to be adequate, and no more than adequate, to ensure the necessary financial strength of the industry concerned and to provide an incentive, not only to achieve the highest standard of efficiency which is immediately practicable, but also to strive constantly for increasing efficiency.'

(Select Committee, Fourteenth Report, 1942–43 Session, page 15, paragraph 29.)

It is not only in connexion with wartime contracts that the notion arises that profits should be at fair and reasonable rates measured in relation to capital employed. In the Report dated December 31st, 1946, of the Committee appointed by the Ministry of Works to review the price structure of the cement industry, one of the conclusions of the Committee was that:

'We find that the profits earned by the industry in the past have not, by reference to capital employed, been excessive.'

Similarly, the following comment appears in the Interim Report published in May 1947, of the Committee of Investigation into the Cotton Textile Machinery Industry appointed by the Minister of Supply:

'. . . we are satisfied that for the two years which we chose for the detailed investigations the profits earned were not abnormal or excessive in relation to the capital employed.'

Clearly these two Committees regarded the relating of profits to what they called 'capital employed' as an established means of testing the reasonableness of the profits. Indeed, in the Cement Costs Report the Committee plainly implied that there were accepted bases for the calculation of capital employed.

'. . . with a full appreciation of the fact that any basis that can be adopted must be in some sense artificial, they (the Committee members) felt it right to call for a computation of capital employed which should be correct within broad limits and compiled on a basis generally *the same as that usually adopted by Government departments* for the calculation of employed capital.' (Cement Costs Report, 1947, page 11, paragraph 59.)

The computation of employed capital was from time to time discussed by the Committee of Public Accounts, and the published proceedings of that Committee give some indication of the official view, as the following relevant extracts show:

Chairman:

'What is the Treasury view on this?' (*Mr Speed of the Treasury.*) 'I take it you refer to the question of the relation of profit to capital employed. The last words of paragraph 5 suggest that the Treasury regard that as the only means of assessing a profit. That is hardly true. We have always taken the view that the amount of capital employed is a useful check upon a profit rate ascertained possibly

by other methods. We have never said that it was seriously practicable to fix a profit rate solely upon the amount of capital employed in production. . . .' (Committee of Public Accounts, First and Second Reports, 1940, page 187.)

Chairman:

'On paragraph 46 (*b*), it is rather difficult to follow Sir Gilbert's (*the Auditor General's*) comment with regard to the advisory accountant. He says: "In calculating the relation of profits to capital employed, the advisory accountant has accepted book figures of capital and these may sometimes be lower than the value which would be used when profits on Government contracts are fixed." Could you explain a little bit what the arrangement is?'

(*Mr Shone of the Iron and Steel Control*) 'In general the advisory accountant has taken as the capital figures the figures of written-down capital. The normal practice of the companies has been to write off more depreciation than the Inland Revenue rate would allow over a long period. This has brought the capital figures down to a lower basis than that normally adopted for determining the rate of profit on a costed contract. In the latter case one takes the original cost of the asset less the rate of depreciation allowed for income-tax purposes.' (Ibid., Minutes of Evidence, 1943, page 412.)

Sir John Mellor:

'When you used the expression "capital", did you mean the book value of the assets or the share and loan capital of the company? How do you assess capital for this purpose?' (*Sir Archibald Rowlands of Ministry of Aircraft Production.*) 'In the Excess Profits Tax sense, broadly speaking.' (Ibid., Minutes of Evidence, 1943, page 440.)

Sir Lindsay Scott (of Ministry of Aircraft Production):

'The Committee will appreciate that we make no estimate of the capital employed. It is not our job to do that. We simply take the figures – as laid down in the Finance (No. 2) Act, 1939 – which are worked out for excess profits tax purposes, and which, therefore, we can get from the firm's books. We only want to get a rough idea of the turnover capital ratio and to find out whether there is a relatively high ratio of turnover to capital.' (Ibid., Minutes of Evidence, 1944, page 330.)

Sir Irving Albery:

'I want to ask the Treasury if they can explain this to me. I am a little puzzled. It has just been explained to us that the estimate or the percentage of profit is based on the excess profits tax standard?' (*Mr Blunt of the Treasury*) 'Yes.'

Sir Irving Albery:

'On former occasions when we have been going into a similar kind of contract, the question has arisen in this Committee: How have you estimated the working capital percentage? The answer we have always got has been: "Oh, the excess profits standard." That, before this Committee in the past, has been regarded as the final answer, I think, that that is the standard, and we have ceased asking any other questions. Now it rather appears, from what we have just heard, that the excess profits tax standard is in fact no particularly reliable guide.' (*Mr Blunt*) 'I am rather glad in a way that that point has come up, because we at the Treasury have been rather disturbed about this. We get the Associations of Chambers of Commerce, the Federation of British Industries and others coming along and girding at our principle of capital employed. They do not understand it and they do not like it. What they like is a figure of profit based on cost. We tell them that this is the established principle, that we have run it during the war and we are going to run it for the remainder of the war, and that is that. But, nevertheless, when we look at it ourselves and see some of the curious results that arise in individual cases because of the peculiar capital structure of a particular firm – it may be a very old-fashioned firm and it may have bought in the slump or it may have bought dear – we do feel that it is by no means an infallible rule at all. It is a rule of thumb thing which we think has given us good service during the war. . . .' (Ibid., Minutes of Evidence, 1944, page 331.)

Mr Benson:

'Can Mr Blunt give us any indication as to how they calculate capital employed?' (*Mr Blunt*) 'I would much rather Mr Cotton gave it. I can only give the broadest of pictures.' (*Mr Cotton*) 'If you read the Finance (No. 2) Act of 1939 that gives you complete detail, I have not them at my fingers' ends.' (*Sir Lindsay Scott*) 'It is calculated on book values, broadly.'

Chairman:

'It is the Inland Revenue value, is it not?' (*Mr Cotton*) 'Yes.' (*Chairman*) 'It is very complicated.' (Ibid., Minutes of Evidence, 1944, page 332.)

Treasury Comment:

'A further consideration affecting both forms of contract (*i.e. fixed price and maximum price contracts*) is the rate of the contractor's turnover. While it is agreed that the capital employed is the primary criterion by reference to which to judge profit returns, it must be remembered that the contractor invariably thinks of profit as percentage of his costs, not of his capital, and that the rate of turnover is to a large extent the measure both of the scope for the contractor's resource and efficiency and of the risk, in cases where there is risk, which he runs. It follows that the added margins which are allowed for efficiency and risk are based on turnover and therefore tend to result in high profit margins where the ratio of turnover to capital is high with more marked effect on the fixed price contract than on the maximum price contract.' (Ibid., Minutes of Evidence, 1944, page 454.)

Report of Committee of Public Accounts:

'Your Committee recognize that, where the turnover is high in relation to the capital employed, a small reduction in the actual cost as compared with the estimated cost on which the (*fixed*) price was based may result in an appreciable increase in the rate of profit realized. They consider it unsatisfactory, however, that, in spite of an experience spreading over a number of years, the contracts placed with the aircraft industry have resulted, owing apparently to insufficient regard being paid to the effect of expansion of production and increased turnover, in average rates of profit on capital so much in excess of the rate which Government policy envisaged.' (Ibid., First Report, 1945–46, page vi.)

Asked if he could produce a schedule showing, for the twenty main aircraft construction firms, the capital employed in each on a comparable basis, *Mr Cotton* of the Treasury replied:

'It is a question for the Chief Accountant. He says he could if he is allowed to give his own definition of "Capital Employed".' (*Sir Harold Scott*) 'I think that is the trouble we are in. We have no agreed definition.' (*Mr Blunt*) 'This is not an exact science.' (Ibid., Minutes of Evidence, 1944, page 340.)

Chairman:

'What sort of figure is the capital employed upon which these percentages have been calculated?' (*Mr McKenzie of Ministry of Supply*) 'I do not know the answer to that question off-hand.' (Ibid., Fourth Report and Minutes, 1945–46, page 342.)

In many cases figures prepared for excess profits tax purposes were used by Government cost investigators during the war for want of anything better as a rapid means of seeing how slowly or quickly capital was turned over in a particular business. As *Sir Lindsay*

Scott said to the Public Accounts Committee (page 330 of 1944 Minutes):

'You appreciate that the working capital which is calculated for excess profits tax purposes is affected to a considerable degree by the dates at which taxation is respectively due and paid and by many things which are entirely extraneous to a scientific calculation of what the true capital employed is.'

A more recent example of the use of a comparison between profits and employed capital appears in the report of the working party for the jute industry, based on an investigation made on behalf of the working party by a firm of chartered accountants. Table 32 on page 62 of the working party's report shows for each of the five years ending 1938 the aggregate profit, capital employed and percentage of profit on capital for 38 producers – spinners, weavers and spinner weavers. A note states that the capital employed figures shown represent the 'average of the capital at the beginning and end of the year as appearing in the balance sheets of the individual producers', and on page 64 the report states that 'in calculating the figures of capital employed, fixed assets have been included at book values'. The Report then points out that because

Appendix B

Hypothetical Cases

Particulars	Company X.	Company Y.	Company Z.
1. Nature of business	Company manufactures articles which it delivers on manufacture to an associated retail company	Company manufactures articles which it sells to independent retailers. It maintains small stocks of finished goods	Company manufactures articles which it sells direct to the public in its own retail shops
2. Premises	Rented factory	Own factory built 1860	Own factory built 1950 and retail shops bought and modernized in 1950
3. Plant and machinery	Rented	Mainly acquired between 1920 and 1930	Installed new in 1950
4. Office furniture	Bought 1930	Bought 1920–1930	Bought 1950
Capital employed	£	£	£
1. At written-down tax values:			
Factory and shop premises	–	1,000	47,500
Plant and machinery	–	5,000	20,000
Office furniture	1,000	1,000	5,000
2. Finished stocks	–	2,500	7,500
3. Debtors	1,000	5,000	–
4. Cash at bank	1,000	1,500	5,000
5. Investments in government stocks	excluded	excluded	excluded
Total capital employed	£3,000	£16,000	£85,000
Sales for year			
Quantity	300,000	300,000	300,000
Value	£28,000	£32,000	£42,000
Cost of sales	£	£	£
1. Factory cost:			
Rent of premises and plant	2,000	–	–
Depreciation	100	1,100	3,100
Other costs	15,900	15,900	15,900
	18,000	17,000	19,000
2. Selling expenses	1,000	4,500	11,000
3. Administrative expenses	7,000	7,000	7,000
	£26,000	£28,500	£37,000
Net profit before tax	£2,000	£3,500	£5,000
Percentage of profit to capital employed	66⅔%	22%	6%

different producers have used varying rates of depreciation it has been thought desirable to recalculate the capital employed substituting written-down income-tax values for plant and machinery and in the case of buildings a notional depreciated figure arrived at by deducting 1 per cent per annum for each year since the building was constructed from an assumed original cost equivalent to twenty times the gross annual value.

The working party, after recording the average annual percentage of profit to capital employed at book value as being 3·21 per cent, makes the comment, 'it may be of interest to record that the average yield on gilt-edged stocks . . . as measured by the return on 2½ per cent Consols was approximately 3·1 per cent'.

Finally reference may be made to the first two reports issued by the Monopolies Commission – the first on the supply of dental goods, dated December 1st, 1950, and the second on the supply of cast-iron rain-water goods dated March 14th, 1951. Appendix 29 of the Dental Goods report is entitled 'Definition of Accounting Terms' and it contains the following paragraph.

'EMPLOYED CAPITAL

'Net assets, comprising fixed and current assets used in the business (but not goodwill), less current liabilities and provisions. The amount of employed capital has been computed by taking the average of the net assets at the beginning and end of the period concerned, at the values shown by the balance sheets.

'If the reference is to capital employed in part only of a business, or is confined to certain products, net assets have been allocated in a similar manner to that adopted by the manufacturer or, where the manufacturer had made no allocation, on such bases as seemed reasonable.

'(The computations of capital employed have been agreed with the manufacturers concerned, except where noted to the contrary.)'

In the course of the report it is mentioned that one manufacturer considered that goodwill should be treated as part of their capital and another that, because it received from an associated concern material already partly processed by a process requiring elaborate plant, the rate of profit expressed as a percentage of its own capital would be less than that quoted in the report. The Commission did not regard the latter point as having great weight.

In the cast-iron rain-water goods report, the Monopolies Commission expressed profits as a percentage of sales and the only reference to employed capital was the following taken from page 38:

'We understand from the Ministry of Supply that in their view the ratio of turnover to capital employed in this industry is not less than 2 : 1, though the British Ironfounders' Association has represented to them that it should be taken as 1 : 3 : 1 (*sic*). We have not thought it necessary for our purposes to make an exact calculation ourselves but we have formed the view that the total profit of the industry is not high in relation to the total capital employed.' (*Concluded.*)

WEEKLY NOTES

Higher Loan Charges

Trade and industry have not had long to wait for the first step towards tighter credit conditions recently announced as imminent by the London Clearing Banks, and dealt with in our notes last week. The banks are taking immediate steps to bring about a gradual change in the structure of loan rates on advances. It seems probable that the ultimate level aimed at will be around 4½ to 5 per cent. That is to say there will be a gradual increase in the price of accommodation of about ½ per cent. This could not be called drastic – but it takes its place in the general movement to apply monetary sanctions slowly but inexorably to induce a measure of disinflation.

The banks themselves are not without some incentive to raise their rates apart altogether from the request of the Government to them to pursue a tougher policy on their terms for advances. Liquidity ratios are moving downward. They dropped between October and November from 39 per cent to 32·1 per cent on the average. The main single cause of this big change has been the large switch from liquid assets to investments following the reduction of the Government's short-term debt and the issue of the £1,000 million series funding issue recently. It would be unwise to say that the ratio (this being the proportion of cash, call-money and bills to total deposits) has been reduced to a level where the banks are bound to start reviewing the position of their long-term assets, which means looking again at their investment portfolios and the amount of their outstanding loans, for ratios have often been lower than they are now. But all forces are conspiring to bring a general pressure to bear on banks and their customers to be increasingly sensitive about the price of financial accommodation.

Increased Freight Rates

It was expected that the recommendation of the Transport Tribunal for an increase in freight rates for the railways would be accepted by the Minister of Transport. In the event, the increase is to be an average of 10 per cent for railway freight rates, dock and canal dues as from December 31st.

The anticipated deficit for 1952 in the operations of the Transport Commission is expected to be of the order of £40 million. Against this it may be able to set an increase in passenger fares for which it has applied and the proceeds of the new rise in freight rates which may yield £21 million a year. The hoped-for increase in passenger fares is expected to bring in an extra £23 million which with the freight increases granted last week should allow of the creation of a small reserve – something of the order of £3 million or perhaps a little more.

This technique of belated upward adjustment of rail charges leaves very much to be desired. From the point of view of the railways it is exceedingly cumbersome, inflexible and slow. From the public's viewpoint it seems merely to postpone and in no way alleviate the inevitable upward movement of the cost of travel and the movement of goods – provided that

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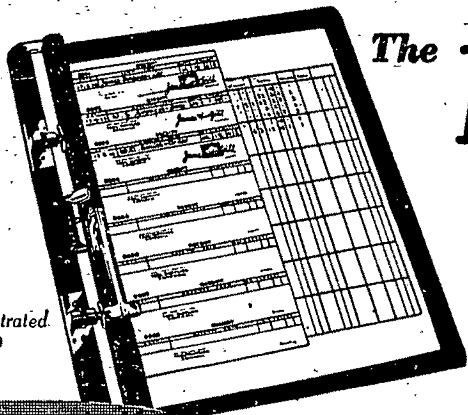

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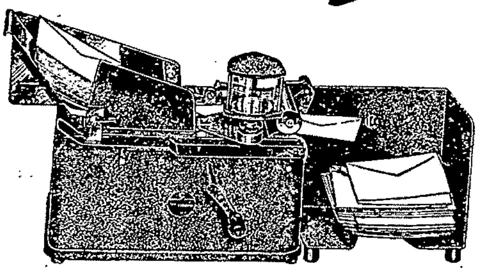

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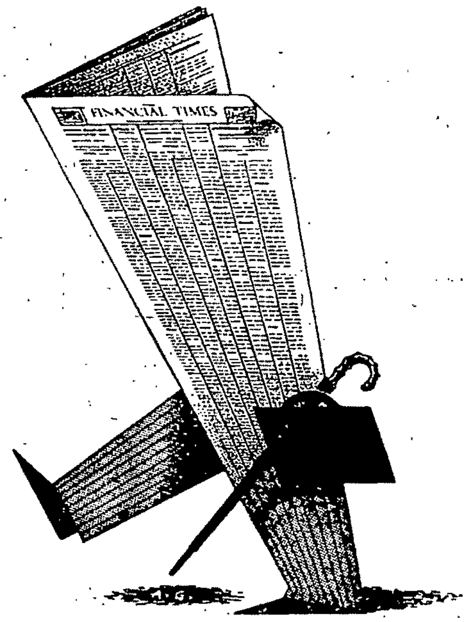
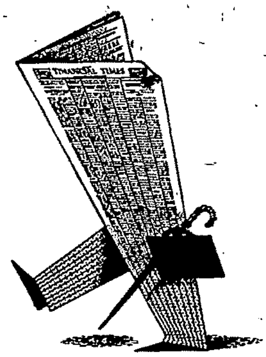


Large Industrialist



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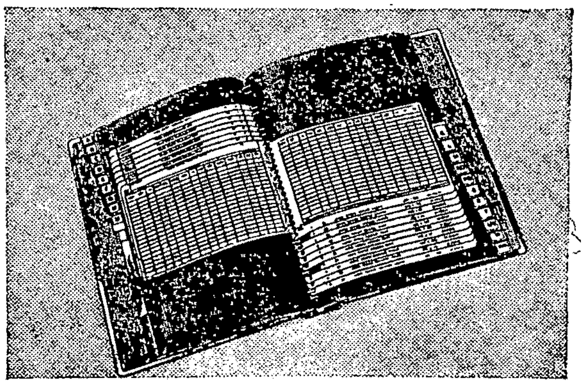

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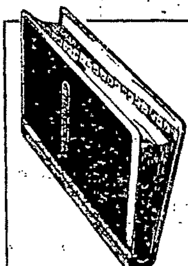

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wage demands and other costs are to be met always by higher charges. It is time that this basic underlying assumption was taken out and looked at again.

Steel Supplies Outlook

There was a sharp reminder at the beginning of this month that the steel industry is finding it exceedingly difficult to obtain sufficient raw materials to maintain production, and that forecasts of a decline to somewhat below peak levels in 1952 are likely to be fulfilled. It has been reported that twenty-seven open-hearth furnaces have been closed temporarily owing to a shortage of pig-iron. The immediate problem in South Wales, where the furnaces are situated, is to be overcome by the importation of pig-iron from the Continent.

The Chancellor of the Exchequer recently stated that there would be a gap of some $1\frac{1}{2}$ million tons of finished steel next year – say two million tons of crude steel. The Minister of Supply has now said that he hopes this gap will be narrowed by about 500,000 tons by higher production and imports. Britain has been allocated 25,000 tons of finished steel in the United States under the steel-for-aluminium plan discussed in a note recently. In addition, it is to be allowed to bid for high-priced ingots – the latest amount reported two weeks ago was for a tonnage up to 93,000. Further, there is the better bargaining position which the British industry has in Germany now that the Americans have agreed to stand down as part of the steel-aluminium agreement. This is not yet translated into scrap however – it is merely a higher probability of getting a useful tonnage.

German Debt Settlement

Subject to a satisfactory settlement of Germany's pre-war debts, Britain, along with France and the United States, has agreed to accept as payment for post-war economic assistance to Germany only a comparatively small proportion of the sums advanced. The concessions are in fact exceedingly generous.

The United States is much the largest creditor. Out of a claim of \$3,200 million, it has agreed to take only \$1,200 million. France will settle for \$12 million out of \$16 million. This country will ask for only £150 million out of claims amounting to £201 million. In the case of the United States there will be an interest payment of $2\frac{1}{2}$ per cent, but not in the other two cases.

An international debt conference is to be held in the new year following the successful outcome of this series of discussions between the Tripartite Commission on German Debts and the German delegation on External Debts.

FINANCE AND COMMERCE

Moves by the banks to maintain cash liquidity positions, further instructions on credit restrictions to the banks and the Capital Issues Committee, and the failure of new issue operations, have combined to depress the gilt-edged market still further. Dullness continues in other sections where raw material and taxation uncertainties also make for anxiety.

Express Success

This week's reprint gives the accounts of the London Express Newspaper Ltd for the year to June 30th, 1951. In the original, it forms part of a 30-odd page pictorial booklet which, in Lord Beaverbrook's words at the opening, places on record the success of the newspaper and publications group he founded. The group includes the *Daily Express*, the *Sunday Express*, the *Evening Standard*, and the *Glasgow Evening Citizen*, also Lane Publications (which produces such books as the *Rupert Annual*), and Joseph Batchelor & Sons, producers of flong for the stereo matrices.

It is a great undertaking with over 7,000 employees, 151 8-page printing units, and 171 type-setting machines. It uses over 274,000 gallons of ink per annum, more than 1,100,000 semi-circular metal plates for the printing process, 46,000 pencils for the staff and $11\frac{3}{4}$ miles of ribbon (typewriter) for the typists. Last year's telephone bill was £74,213.

The main theme in this story of success is told in tables showing the growth of circulation and advertising revenue over 33 years to 1951. In 1919 the *Daily Express* average net sale was 478,563 and advertisement revenue £155,742. For many years each paper sold was matched, or more, by £1 of advertising revenue. For 1951 under rationing, net sale, however, was 4,168,694 and advertising revenue £1,913,861.

Where the Money Goes

In the statistical material included in the *Express* success story, 'Where the money comes from' and 'Where the money goes' are two particularly interesting analyses. Two-thirds of gross income, it is shown, came from the hundreds of millions of pence paid by the public for their newspapers; more than twice as much as was paid by the advertisers. Distribution costs absorb substantial amounts, over £3 million going to newsagents and £855,000 in actual distribution, including road and rail carriage.

Looking at this coming and going of the money that keeps the wheels turning, one cannot help but wonder why the information thus given is not woven into the regular accounts. The same could be said, of course, of the many other companies which provide similar information. Admittedly the provision of figures of turnover and its application is of comparatively recent origin – a sort of overweight tacked on to the standard accounts to show what good measure of information the directors are providing – but we look forward to seeing the turnover detail within the accounts and not as an extra.

THE LONDON EXPRESS NEWSPAPER, LIMITED, AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet, June 30th, 1951

June 30th, 1950 £	June 30th, 1950 £		£	£
		Issued Share Capital of the London Express Newspaper Ltd:		
	408,000	Ordinary Shares of 5s each, fully paid	408,000	
	913,920	'A' Ordinary Shares of 5s each, fully paid	962,880	
	1,500,000	7 per cent Cumulative Preference Shares of £1 each, fully paid	1,500,000	
2,821,920				2,870,880
		Capital Reserve:		
176,983		Excess Profits Tax Post-war Refund		176,983
		Revenue Reserves and Undistributed Profits:		
	235,394	Reserve for Contingencies	250,000	
	164,225	Profit and Loss Account – Balance per annexed Account	173,354	
	399,619		423,354	
	263,000	Reserve for Future Income Tax, 1952–53	287,300	
662,619				710,654
3,661,522				3,758,517
		Interest of Minority Shareholders:		
19,092		Share Capital of Subsidiaries held by Minority Shareholders and proportion of reserves and undistributed profits attributable thereto		20,487
12,800		**Mortgage Loan in Subsidiary** held outside the Group (*Redeemable at par on November 11th, 1956*)		12,800
		Current Liabilities:		
	763,090	Creditors and Accrued Charges	781,760	
	407,218	Taxation (including Income Tax 1951–52)	495,537	
	65,228	Dividends declared but unpaid (*less* Income Tax)	63,548	
	4,500	Proposed Directors' Fees	4,500	
1,240,036				1,345,345
£4,933,450				£5,137,149

NOTES:

(a) The Holding Company is contingently liable under a joint and several guarantee with other newspaper proprietors, given to Bankers, dated May 31st, 1940, in connexion with the supply of newsprint.

(b) No adjustment has been made to the book values of certain fixed assets destroyed or damaged by enemy action, in respect of which claims have been lodged under the War Damage Acts.

(c) Commitments in respect of Capital Expenditure at June 30th, 1951, amounted to approximately £92,000 (June 30th, 1950, £57,000.)

June 30th, 1950 £	June 30th, 1950 £			£	£
		Fixed Assets:			
	2,181,157	Freehold Land and Buildings, at cost		2,237,947	
	801,836	*Less* Depreciation		839,463	
1,379,321					1,398,484
277		Leasehold Land and Buildings, at cost			277
		Plant, Machinery, Type, Motor Cars, Furniture and Fittings:			
	681,733	(*a*) At net amount standing in companies' books on June 30th, 1948, *less* sales		681,256	
	79,291	(*b*) At cost		132,508	
	761,024			813,764	
		Less Depreciation on amounts stated at:			
	102,277	(*a*) Above	£153,299		
	12,297	(*b*) Above	23,785		
	114,574			177,084	
646,450					636,680
22,536		Trade Investments, at cost			22,536
2,048,584					2,057,977
	501,335	**Goodwill and Copyrights,** at cost		501,335	
	430,711	**Excess Cost of Investments in Subsidiaries** over appropriate proportion of book values of net assets at dates of acquisition		430,711	
932,046					932,046
		Current Assets:			
	421,393	Stocks and Work in Progress		647,409	
	797,365	Debtors and Payments in advance, *less* provisions for doubtful debts, returns, discounts and allowances		1,135,389	
	9,978	Investments [Market Value £8,190 – (1950, £8,694)]		9,978	
	2,750	Tax Reserve Certificates		200,000	
	721,334	Balances at Bankers and Cash in Hand		154,350	
1,952,820					2,147,126
£4,933,450					£5,137,149

THE LONDON EXPRESS NEWSPAPER LIMITED, AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account for the Year ended June 30th, 1951

June 30th, 1950 £	June 30th, 1950 £		£	£
7,983,042		Production, Distribution, Establishment, Management and General Expenses (including Directors' emoluments)		8,910,732
101,512		Depreciation of Buildings, Plant, Machinery, etc.		100,264
10,375		*Amount set aside to Sinking Fund Policy Reserve*		—
6,359		Interest on Mortgage		544
		Taxation on Year's Profits:		
	161,950	Profits Tax	208,650	
	279,154	Income Tax	317,074	
441,104				525,724
314,707		Balance carried down		293,748
£8,857,099				£9,831,012

June 30th, 1950 £	June 30th, 1950 £		£	£
5,323,987		Sales of Newspapers and other Publications (net)..		6,005,044
3,348,042		Advertising Revenue (net)		3,594,542
180,604		Miscellaneous Revenue		226,356
8,852,633				9,825,942
4,230		Dividends on Trade Investments ..		4,755
236		Dividends on other Investments ..		315
£8,857,099				£9,831,012

£	£		£	£
177		Proportion of profits of Subsidiaries attributable to Minority Shareholders' Interests therein ..		1,395
930		Transfer to Reserve for Contingencies		14,606
216,625		Dividends paid and proposed by The London Express Newspaper Ltd: Preference and Ordinary Dividends for the year (*less* Income Tax)		219,658
		Balance carried forward per Balance Sheet:		
	134,465	The London Express Newspaper Ltd	139,708	
	29,760	Subsidiaries	33,646	
164,225				173,354
£381,957				£409,013

£	£		£	£
314,707		Balance brought down		293,748
		Balance brought forward from last Account		
	90,312	The London Express Newspaper, Ltd	134,465	
	48,960	*Less* Capitalized and applied in paying up 195,840 'A' Ordinary Shares of 5s each	48,960	
	41,352		85,505	
	25,898	Subsidiaries	29,760	
67,250				115,265
£381,957				£409,013

Accounting Date

'For the purpose of clarification, all the above transactions have been incorporated in the balance sheet at August 4th, 1951, although the stockholders' meetings were not held until after that date.' This entry in the notes on the accounts of Tube Investments Ltd was interesting for we remembered the battle that was fought in our correspondence columns on the strict observance of accounting date in the early days of 'modern' accounts. 'Provision for proposed dividends' is now a standard entry.

What prompts this particular anticipation of a coming event is the vesting in the Iron & Steel Corporation on February 15th, 1951, of the capital of Stewarts & Lloyds Ltd. Between the two companies was a liaison which was expressed in special rights attaching to the shares of the other which each company held.

The arrangement came to an end with the nationalization of Stewarts & Lloyds and the special rights were cancelled by a cash payment of £650,000 to that company from Tube Investments, the payment being arranged through a share-placing operation.

J. A. P. Accounts

The first accounts of J. A. Prestwich Industries Ltd have now been issued. It is a name famous in motoring history. Many of our middle-aged readers probably began their motoring on J.A.P.-engined motor cycles. Its engine production is now mainly for industrial purposes; the group also has a pencil-making offshoot.

The 'Industries' company was incorporated on April 23rd, 1951, but had no revenue, income or expenditure until the subsidiaries were acquired on June 18th, 1951. The accounts have been made up on that basis as at July 31st, 1951. Mr J. A. Prestwich, in his review, says the accounts have been presented covering only six weeks' operations to enable the tying up of all loose ends in connexion with the company's formation and so that the next accounts would cover a level twelve months.

While the company's accounts are for the short period, however, the figures presented give the result of the full year to July 31st, 1951, against the result of the previous full year. These two years' figures are in red to distinguish them from the figures in black for the new company's accounting period. The greater part of the year's profit becomes pre-acquisition surplus in the consolidated balance sheet.

Money Market

Treasury bill applications totalled £225,255,000 on December 7th, and bidding at £99 15*s* 2*d* the market received 73 per cent of requirements. The average rate was 19*s* 3·26*d* per cent against 19*s* 6·54*d* per cent the previous week. This week's offer is £170 million.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Balance Sheets in the Future

SIR, – Mr Angus MacBeath (*The Accountant*, December 1st) does not go far enough. I think that balance sheets of today should, and balance sheets in the future will, be drawn up in this way – as set out in the attached sketch.

This method of presentation has, *inter alia*, the following advantages:

It shows the effect on savings and investment exercised by the company;

It solves the problem of how to deal with replacement costs of fixed assets by distinguishing between the savings made for their replacement (which in some cases might only be simple depreciation), and the savings that are required for replacement at current prices;

It describes what are called 'reserves' by their proper title of savings and thus dispenses with general reserve, contingencies reserve, balance of profit and loss account and so forth, which are merely the names given to ledger accounts;

It describes what, if any, inventory gains have occurred. (There is considerable confusion of thought on inventory gains but space does not permit of a fuller analysis.)

It shows the cumulative effect on the company of changes in prices;

It demonstrates how the business is being financed.

...... **LIMITED**
(whose Authorized Capital is £2,000,000 Ordinary Shares of £1 each)
STATEMENT OF POSITION, December 31st, 1950
(000's omitted)

December 31st, 1949		Source	December 31st, 1950	
At Price of Acquisition	At *1949 Prices*		At Price of Acquisition	At *1950 Prices*
£	£		£	£
		I. Savings		
		by the Shareholders		
1,000	*1,000*	1,000,000 Shares subscribed in March 1938 at £1 per share	1,000	*1,000*
—	—	500,000 Shares subscribed in January 1950 at £2 per share	1,000	*1,000*
1,000	*1,000*		2,000	2,000
		by the Company		
—	*887*	required to replace Fixed Assets ..	—	*1,017*
717	—	made for replacement of Fixed Assets	817	—
510	*510*	made for General Purposes	655	*655*
96	*96*	as Refund of Excess Profits Tax ..	96	*96*
		(*Note.* – The Directors consider that none of these savings is at present available for distribution as dividend.)		
1,323	*1,493*		1,568	*1,768*
2,323		**Total Savings** .. .. .. (Excess of Savings over Investment in the year £875,000.)	3,568	
—	*1,301*	**II. Changes in Money Values of Assets since date of acquisition**	—	*1,328*
2,323		Cost of Assets employed financed by Savings	3,568	
—	*3,794*	Value of Assets employed financed by Savings	—	*5,096*
		III. Short-term Borrowing		
681	*681*	From Bankers	—	—
638	*638*	„ Creditors for Trade Accounts etc.	677	*677*
55	*55*	„ Shareholders for Dividends not yet paid	82	*82*
380	*380*	as Taxation not yet paid	440	*440*
1,754	*1,754*		1,199	*1,199*
		Less **Lending**		
330	*330*	to Debtors for Trade Accounts etc. ..	350	*350*
100	*102*	as British Government Securities ..	100	*108*
430	*432*		450	*458*
1,324	*1,322*	**Net Short-term Borrowing** ..	749	*741*
£3,647	*£5,116*		£4,317	*£5,837*

December 31st, 1949		Disposal	December 31st, 1950	
At Price of Acquisition	At *1949 Prices*		At Price of Acquisition	At *1950 Prices*
£	£		£	£
		IV. Investment		
1,320	*2,271*	in Fixed Assets	1,361	*2,420*
2,210	*2,316*	„ Stock and Work in progress	2,539	*2,616*
117	*529*	„ Other Companies as Trade Investments ..	117	*501*
3,647	*5,116*	**Total Investment**	4,017	*5,537*
—	—	**V. Bank Deposits and Cash in Hand**	300	*300*
£3,647	*£5,116*		£4,317	*£5,837*

The statement of position (I have dispensed with the title 'balance sheet') would be drawn up only to the practicable limits of accuracy – in the example given, to the nearest £000. For clarity the columns headed 'At 1950 (or 1949) prices' are better printed in red.

It is, of course, impossible to fit a sensible statement of position into the framework of the Companies Act, 1948.

Yours faithfully,
W. S. HAYES.

Dartford, Kent.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council, held on Wednesday, December 5th, 1951, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr C. W. Boyce, C.B.E., President, in the chair, Mr T. B. Robson, M.B.E., Vice-President, Messrs Graham Adam, M.C., H. Garton Ash, O.B.E., M.C., Sir Harold Barton, Messrs T. Hamilton Baynes, B. H. Binder, T. Fleming Birch, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, S. W. Cornwell, A. S. H. Dicker, M.B.E., G. R. Freeman, S. H. Gillett, M.C., P. F. Granger, D. V. House, H. Crewdson Howard, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., W. R. MacGregor, J. S. Mackenzie, P. Morgan-Jones, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, E. E. Spicer, E. D. Taylor, T. A. Lacy Thompson, D.S.O., M.C., G. L. C. Touche, E. G. Turner, M.C., A. D. Walker, T. Walton, Sir Nicholas Waterhouse, K.B.E., Mr H. B. T. Wilde, with the Secretary and an Assistant Secretary.

Reduction in Period of Service under Articles

Three applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

Three applications under bye-law 63 (*c*) for a reduction in the period of service under articles were acceded to and one application was not acceded to.

Exemption from the Preliminary Examination

One application under bye-law 63 (*a*) for exemption from the Preliminary examination was acceded to and one application was not acceded to.

Exemption from the Intermediate Examination

Two applications under bye-law 85 (*b*) for exemption from the Intermediate examination were acceded to and one application was not acceded to.

General Purposes Sub-Committee (Non-practising Members)

The Council approved a recommendation by the General Purposes Committee that there shall be constituted a sub-committee of the General Purposes Committee to be known as the General Purposes Sub-Committee (non-practising members), whose function shall be to advise on matters relating to the interests of non-practising members of the Institute. The Sub-Committee will consist of the four (later to be five) non-practising members of the Council, together with three members of the Council in practice, two of whom shall be the Chairman and Vice-Chairman of the General Purposes Committee.

Change of Name

It was resolved that the name of Mr Donald Solomon Woolf, O.B.E., A.C.A., be changed in the Institute records to Donald Solomon Gorer.

Appointment while Serving under Articles

One application under bye-law 57 from an articled clerk for permission to accept an appointment while serving under articles was acceded to.

Institut der Wirtschaftsprüfer

The Council received the report of Mr E. Bartholomew, A.C.A., and Mr W. Rendell, M.A., A.C.A., on their visit as representatives of the Institute to the Conference held by the Institut der Wirtschaftsprüfer in Düsseldorf on October 3rd to 5th, 1951. A unanimous vote of thanks was passed to Mr Bartholomew and Mr Rendell for visiting Düsseldorf on behalf of the Institute.

Registration of Articles

The Secretary reported that 194 articles of clerkship were registered during the month of November, making a total of 1,299 since January 1st, 1951, as compared with 1,380 in the previous year.

The late Sir Henry Thomas McAuliffe

The Council received with very great regret the Secretary's report of the death of Sir Henry Thomas McAuliffe, F.C.A., a member of the Council from 1926 to 1938 and Chairman of the Parliamentary and Law Committee from 1932 to 1936.

Resignations

The Secretary reported the resignation of:

Mr Harold Redvers Michael, F.C.A., London.
„ Harold Percy Moller, F.C.A., Felsted.
„ Hubert Branson Smith, A.C.A., Parkstone.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Harry Alfred Lavender Bayley, A.C.A., Wellington, Shropshire.
„ David Ernest Garnett, A.C.A., Cagnes-sur-Mer.
„ Eric Wallace McCracken, A.C.A., London.
„ Erik Taylor, A.C.A., London.
„ John Seeley Tropman, F.C.A., Birmingham.
„ Cyril Watts, F.C.A., London.

LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS ANNUAL DINNER

The Liverpool Society of Chartered Accountants held a dinner at *The Adelphi Hotel*, Liverpool, on Friday, December 7th, with Mr K. G. M. Harding, B.A., J.P., F.C.A., President of the Society, in the chair. Over 190 members and guests attended and were received by Mr Harding, Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Alderman Vere E. Cotton, C.B.E., T.D., Lord Mayor of Liverpool.

Among the guests were Mr J. D. R. T. Tilney, J.P., M.P., Sir Leonard Holmes, LL.M., and:

Messrs John Ainsworth, M.B.E., F.S.A.A., F.I.M.T.A. (*City Treasurer, Liverpool*); T. Fleming Birch, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); Harold Bolton, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); E. P. Broome, F.C.A. (*President, Nottingham Society of Chartered Accountants*); Lieut.-Col. P. G. R. Burford, T.D., M.A. (*Secretary, Incorporated Chamber of Commerce of Liverpool*); Messrs H. Clow, F.C.I.S. (*Chairman, Chartered Institute of Secretaries, Liverpool and District Branch*); S. W. Cornwell, F.C.A. (*President, Bristol and West of England Society of Chartered Accountants*); Derek du Pré (*Editor, 'The Accountant'*); A. K. Ferguson, A.C.A. (*Official Receiver in Bankruptcy*); W. B. Gowers, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*).

Messrs D. J. Hadley, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); E. W. Hall, F.C.W.A. (*President, Institute of Cost and Works Accountants, Liverpool Branch*); S. W. Hanscombe M.B.E., A.S.A.A. (*President, Incorporated Accountants' District Society of Liverpool*); J. A. Hinks, J.P., F.R.I.C.S. (*Chairman, Royal Institution of Chartered Surveyors, Lancashire and Cheshire and Isle of Man Branch*); J. W. T. Holland, M.A. (*President, Incorporated Law Society of Liverpool*); T. W. H. Humphreys, J.P. (*President, Insurance Institute of Liverpool*); Professor F. E. Hyde, M.A., PH.D.(ECON.), F.R.HIST.S. (*Dean of the Faculty of Arts, University of Liverpool*); Messrs Arthur Jolly, J.P., F.C.A. (*President, South-Eastern Society of Chartered Accountants*); M. Wheatley Jones, B.COM., F.C.A. (*President, Manchester Society of Chartered Accountants*); T. E. A. Killip, F.A.C.C.A., F.C.I.S. (*President, Association of Certified and Corporate Accountants, Liverpool and District Society*); A. S. MacIver, M.C. (*Secretary of the Institute*).

Messrs W. Owen, J.P., F.A.I. (*Chairman, Chartered Auctioneers' and Estate Agents' Institute, Liverpool and District and North Wales Branch*); G. B. Robins, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); C. C. Taylor, F.C.A. (*President, Liverpool Chartered Accountant Students' Association*); F. M. Wilmot (*H.M. Principal Inspector of Taxes*).

Example of Public Spirit

Proposing the toast of 'The City and Trade of Liverpool', Mr J. D. R. T. Tilney, J.P., M.P., said:

'There is no doubt that the heaviness of taxation in this country is in danger of making us a nation of gamblers and of wanglers.' (Hear, hear.)

'We can only meet taxation and Government expenditure if the wheels of trade move more easily and more quickly, therefore members of managements, accountants and all who make up the great trade of this city must help in the job to speed up our trade and to guarantee the maximum amount of commerce.' (Applause.)

The Lord Mayor of Liverpool, Alderman Vere E. Cotton, C.B.E., T.D., in responding said that accountants had done more than their share in the past in contributing to the success of trade and commerce of the city – their present chairman had set them a fine example of public spirit and public work (hear, hear) – it meant sacrifice of time and money, but it was that type of public spirit which had been shown in Liverpool for the last forty years which had made the city what it was today.

Sir Leonard Holmes, LL.M., proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said it was appropriate that a member of the legal profession should propose this toast because 'your profession and ours have so much in common'. He continued:

'Our work is tied up in all sorts of responsibilities and we are very largely dependent upon one another – here I would particularly stress the close co-operation which exists between your Institute and the Council of the Law Society.

Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, in the course of his reply referred to what he termed the 'vicious inflationary spiral and high taxation' and the effects of these conditions on 'what was known as the "middle classes" '. He then turned to the work of chartered accountants in industry and said:

Non-practising Members on the Council

'As you all know, the Council now has a number of non-practising chartered accountants among its members. At present there are four such members but ultimately the number will be raised to five.

'The Council has recently had under consideration a proposal that a committee should be formed to consider matters relating to the interests of non-practising members of the Institute, not only those engaged in industry and commerce but also those employed within the profession.

'The Council has now approved the setting up of a sub-committee of the General Purposes Committee, whose functions shall be to advise on matters relating to the interest of non-practising members of the Institute.[1] The sub-committee will consist at the outset of the four non-practising members of the Council and three members of the Council in practice. The number of non-practising members will subsequently be increased to five.

'The Council considers that the establishment of such a sub-committee will enable the General Purposes Committee to refer matters relating to non-practising members to it for detailed examination and advice, and on the other hand the non-practising members of the Council could raise through this sub-committee any matters which they consider should receive attention from the Council.

'The Council view the setting up of this sub-committee as an extension of its policy of maintaining closer contact with non-practising members.' (Applause.)

The toast of 'Our Guests' was proposed by Mr G. N. Fullagar, F.C.A., Vice-President of the Society, and Mr Derek du Pré, Editor of *The Accountant*, responded.

Mr A. D. Walker, a member of the Council of the Institute, then proposed a vote of thanks to the President. Mr Harding replied, expressing his appreciation of the work of the dinner committee and of the Hon. Secretary, Mr T. A. Macfarlane, B.A., A.C.A.

[1] See the leading article and the report of the meeting of the Council, in this issue.

DINNER IN EXETER

Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants

The Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants held its third annual dinner at *The Imperial Hotel*, Exeter, on Friday, December 7th. The company of some seventy members and guests was received by Mr R. S. Frost, F.C.A., Chairman of the Branch, and by Mr H. Garton Ash, O.B.E., M.C., F.C.A., Immediate Past President of The Institute of Chartered Accountants in England and Wales.

Among the guests were Mr G. C. Hayter-Hames, C.B.E., J.P., Vice-Chairman, Devon County Council; Alderman W. H. C. Bishop, Sheriff of Exeter; the Very Rev A. R. Wallace, Dean of Exeter; Mr C. E. Ainley, H.M. Principal Inspector of Taxes, Bristol Head Office; and

Messrs W. P. Bodman (*President, Exeter and District Local Centre of the Institute of Bankers*); K. E. C. Budge, F.S.A.A. (*President, Incorporated Accountants' District Society of Devon and Cornwall*); D. P. Clarke (*Secretary, Insurance Institute of Exeter*); S. A. Copp (*President, Devon and Exeter Incorporated Law Society*); C. Croxton-Smith, M.A., LL.B., A.C.A. (*Hon. Secretary, Bristol and West of England Society*); E. R. Gale, F.A.C.C.A. (*Secretary, Plymouth and District Centre, Association of Certified and Corporate Accountants*); A. D. Lake (*H.M. Inspector of Taxes*); C. H. S. Loveday, A.C.A. (*Assistant Secretary, Institute of Chartered Accountants in England and Wales*); N. Mutton, J.P., F.A.I. (*President, Western Counties Branch, Chartered Auctioneers and Estate Agents Institute*).

Messrs F. Olford (*H.M. Inspector of Taxes*); P. D. Pascho, F.S.A.A. (*Secretary, Incorporated Accountants' District Society of Devon and Cornwall*); S. G. Pope (*Secretary, Devon and Exeter Incorporated Law Society*); C. Radley (*President, Insurance Institute of Exeter*); E. S. Reynolds (*H.M. Inspector of Taxes*); P. V. Roberts, A.C.A., and H. A. Snell, F.C.A. (*Vice-Presidents of the Bristol and West of England Society*); G. E. Tomlinson (*Secretary, Western Counties Branch, Chartered Auctioneers and Estate Agents Institute*); Arthur E. Webb (*Assistant Editor, 'The Accountant'*); B. E. F. Whitehead (*Hon. Secretary, Exeter and District Local Centre, Institute of Bankers*).

Doctors of Industry

Mr P. V. Roberts, A.C.A., a Vice-President of the Bristol and West of England Society of Chartered Accountants, proposed the toast of 'The City and County of the City of Exeter', and in responding the Sheriff of Exeter, Alderman W. H. C. Bishop, said that chartered accountants were the 'doctors of industry' and that their difficult times were to come.

'You are the profession which holds the pulse of commerce and which will guide commerce,' he said.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr C. E. Ainley, H.M. Principal Inspector of Taxes, Bristol Head Office, said chartered accountants had an increasingly important part to play and spoke of the mutual respect between his profession and theirs.

Responding, Mr H. Garton Ash, O.B.E., M.C., F.C.A., Immediate Past President of the Institute, said:

'The toast of the Institute is one to which during my year of office I was called upon to reply to some twenty or more times and it therefore becomes a little difficult to find something new to say on each occasion. May I say at once how much I appreciate the kindly terms in which Mr Ainley has submitted the toast to you. It is particularly pleasing to hear these remarks from a Chief Inspector of Taxes. A spirit of mutual trust and confidence between the Inland Revenue and our profession is essential in the interests of our clients.'

The Institute's Task

Referring to the work of the Council of the Institute and its committees, Mr Garton Ash said:

'Looking back over recent months I find that the General Purposes Committee had 44 items on one agenda and never less than 20 items. The Investigation Committee is also a very active one; under the Supplemental Charter the duty of advising members has been added to its functions. Here there were as many as 38 items at one meeting and never less than 18. I should not like anyone to think that this indicates that many members are at fault – it is rather that the additional advisory duties laid on this committee are most helpful to members.

'Another committee that involves much work is the Parliamentary and Law. Here the number of items on an agenda has varied from 9 to 18. Although it does not have so many individual items as the other two committees I have mentioned, many of them involve the most detailed consideration of documents of great length and importance. As examples I need only mention submissions of evidence to the Tucker Committees, and the Royal Commission on Taxation of Profits and Income, matters connected with the Companies Act, 1948, the Institute's Recommendations, and consideration of reports for submission to the Council with a view to publication. In this latter work the main Taxation and Research Committee, assisted by those of the district societies, plays an important role.'

Mr Garton Ash went on to refer to the Examination Committee and its problems, particularly in regard to the abolition of the School and Higher Certificates, which have now been replaced by the General Certificate of Education. This has entailed the formulation of new conditions for the purpose of exemption from the Preliminary examination.

Speaking of his recent visit to South and East Africa, Mr Garton Ash said it was encouraging to meet members of the Institute there, and to learn of the high regard in which they are held.

The toast of 'The Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants' was proposed by Mr G. C. Hayter-Hames, C.B.E., J.P., Vice-Chairman of the Devon County Council. Speaking as chairman of the County Council Finance Committee and as a banker by profession, he said that it seemed to him that there was a very great need for the help that accountants can give the community in these days.

The toast was responded to by Mr R. S. Frost, F.C.A., Chairman of the Branch, who expressed the appreciation and indebtedness of his committee and fellow members to the honorary branch secretary, Mr John G. Simpkins, A.C.A., for the immense amount of work which he performed on their behalf.

'Our guests' was proposed by Mr S. R. Perratt, F.C.A., a member of the committee of the branch and the responder was Mr Norman Mutton, J.P., F.A.I.

BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY

ANNUAL DINNER

The annual dinner of the Birmingham Chartered Accountant Students' Society was held at *The Grand Hotel*, Birmingham, on Friday, December 7th, 1951, with 336 members and guests present – the largest attendance in the seventy years' history of the Society. Mr W. L. Barrows, J.P., F.C.A., President of the Society, presided.

Among those present were the Rt. Hon. The Earl of Dudley, M.C., T.D., D.L., J.P.; Sir Harold G. Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., Past President, The Institute of Chartered Accountants in England and Wales; Sir Percy H. Mills, K.B.E., Past President, Birmingham Chamber of Commerce; Mr H. B. T. Wilde, F.C.A., Member of the Council of The Institute of Chartered Accountants; Mr Sydney Vernon, LL.B.(LOND.), LL.M.(B'HAM.), Pro-Chancellor of Birmingham University; and

Messrs L. H. Beare, B.COM., A.C.A.; C. W. Blasdale (*H.M. Principal Inspector of Taxes, Birmingham First District*); S. F. Burman, M.B.E. (*Past President, Birmingham Chamber of Commerce*); D. N. Byrne, F.A.I. (*Past Chairman, Birmingham and West Midlands Branch, Chartered Auctioneers and Estate Agents Institute*); T. J. Cottrell; Professor D. Cousins, B.COM., A.C.A. (*Professor of Accountancy, Birmingham University*); Messrs E. J. Dodd, C.B.E. (*Chief Constable of the City of Birmingham*); W. Raymond Doherty, T.D., A.C.A. (*Chairman of the Committee of the Society*); J. P. Eames, O.B.E., F.I.M.T.A., F.S.A.A. (*City Treasurer of Birmingham*); T. M. Elias (*Clerk to the Birmingham Justices*);

Messrs H. James Gittoes, J.P., F.C.A. (*Vice-President, Birmingham and District Society of Chartered Accountants*); Eric Hemsoll, M.C. (*Clerk to the Committee of the Society*); Captain Sir H. Maurice Huntington-Whiteley, Bart., R.N.; Messrs T. E. Hurst (*District Manager, Lloyds Bank Ltd*); C. N. B. Jones; B. C. Kirk, F.C.A. (*Vice-President of the Society*); A. A. Miller, M.C., F.C.A.; K. Milliken-Smith (*President, Council of Associated Stock Exchanges; Chairman, Birmingham Stock Exchange*); A. Morley; E. J. Newman, M.A., F.C.A. (*Hon. Secretary, Birmingham Chartered Accountants Joint Committee*).

Messrs W. H. Newton, M.A., F.C.A.; James C. Parsons, F.C.A.; H. G. Pearsall (*Hon. Secretary, Birmingham and District Incorporated Accountants' Students' Society*); M. P. Pugh, D.S.O., M.C. (*Prosecuting Solicitor, Birmingham*); W. Robinson (*Hon. Secretary, Birmingham and District Students' Society, Association of Certifid and Corporate Accountants*); W. G. A. Russell, F.S.A.A. (*Member of the Council, Society of Incorporated Accountants and Auditors*); Dr Harold Thwaite, M.B., B.S.(LOND.), M.R.C.S., L.R.C.P. (*President, Warwickshire County Cricket Club*); Messrs Douglas W. Turner, J.P. (*Director, Midland Bank Ltd*); E. C. Turner, T.D., M.COM., F.C.A. (*Hon. Secretary, Birmingham and District Society of Chartered Accountants*).

Superman of Finance

Proposing the toast of 'The Institute of Chartered Accountants', the Rt. Hon. The Earl of Dudley, M.C., T.D., D.L., J.P., said that those, like himself, who had been long in business, realized to the full the immense importance of company secretaries, accountants and auditors in modern commerce. The ramifications and the importance of accountants in these days was so immense and diverse that the modern accountant could no longer be an ordinary human being; he must be 'a sort of superman of finance'.

Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., in his response, began by thanking Lord Dudley for his delightful tribute to their profession. He spoke of his many pleasant memories of Birmingham in the days before the First World War when, as a young man in Nottingham, he often came to the city to play Rugby football.

He considered that probably the biggest problem facing the profession at the moment was the question of rising prices; he urged students, despite examination commitments which might sometimes seem to be all that mattered, to take an interest in the important issues of the day, such as rising prices and 'what to do with the various levels of the pound', and continued:

'We have got to be very, very careful to keep abreast of the times and move with the times, and at the same time to be sure that we are living up to the great traditions of the past and the duty we are responsible for – namely, to show things in the proper form and give a true and fair view. One is not mixing metaphors – "to stick in the mud" is not the same as "to keep your feet firmly on the ground". As a profession we have got to be very careful not to be swayed too much by these political and other issues, which – if we are not careful – will sweep away all that we stand for in the way of putting forward true and fair accounts.'

First Students' Society, 347 B.C.

The toast of 'The Students' Society' was proposed by Mr Stephen F. Burman, M.B.E., Past President of Birmingham Chamber of Commerce, who recalled that the first students' society was formed in 347 B.C. by Plato, 'whose work should be a compulsory study for chartered accountants'. Under Plato's system, the course took a little longer than today: the young man was articled at the age of 10 and passed his Final examinations at 50! (Laughter.)

Replying to the toast, Mr J. M. Rae, honorary secretary of the Society, referred to the tremendous amount of new case law and the spate of new legislation which had appeared in recent years, and which contributed to the interest – and the tribulation – of the student. Many students did interest themselves in wider issues of accountancy outside the examination syllabus.

The toast of 'The Guests' was proposed by Mr H. B. Huntington-Whiteley, Hon. Assistant Secretary of the Society, with response by Mr M. P. Pugh, D.S.O., M.C.

Proposing a toast to 'The President', Mr G. N. Salisbury, Hon. Treasurer of the Society, said that Mr Barrows had been actively associated with the running of the Society for well over twenty-five years, and members much appreciated his excellent work and his warm personal interest in their activities.

Mr W. L. Barrows, J.P., F.C.A., in his reply, said that this was an important year in the history of the Society, for three main reasons – because the membership had reached the 1,000 mark; because of the formation of a Wolverhampton branch; and because, during the coming week, he was to be privileged to welcome to Birmingham delegates to the meeting of the Union of Chartered Accountant Students' Societies.

A programme of music was provided during the dinner by the Maurice Udloff 'Artistrio'.

IN PARLIAMENT

Capital Issues Committee: New Economic Policy

Mr MAUDE asked the Chancellor of the Exchequer what fresh instructions he has issued to the Capital Issues Committee.

Mr R. A. BUTLER: I have addressed a letter to Lord Kennet, Chairman of the Capital Issues Committee, the text of which is given below. At the same time, as on previous occasions, the banks are being asked to ensure that the credit policy of the banking system should operate in conformity with the same general principles as those set out in my letter to the Chairman of the Capital Issues Committee. I am confident that, in their operations, the banks will have full regard as heretofore to the Government's economic policy. I regard it as most important that the banks and accepting houses should continue to intensify their efforts to restrict credit to essential purposes and, in particular, to ensure the highest priority for our defence programme and for our exports. I am also asking that banking facilities should not be given for the speculative buying or holding of securities, real property or stocks of commodities; that finance for hire-purchase should be limited; and that notwithstanding the statutory exemptions of borrowings made in the ordinary course of business, bank advances should not in general be made for capital expenditure.

Text of the letter to the Chairman of the Capital Issues Committee

December 4th, 1951.

DEAR KENNET,

I have been considering how far the principles on which the Capital Issues Committee operate may need fresh emphasis in the light of the new economic policy which is being developed by the Government.

It is clear that the Committee must scrutinize all applications by reference primarily to the contribution which they can make to the surmounting of our present difficulties. I would ask the Committee to accept this test as their basic criterion, and to apply it in a vigorously critical spirit. Clear priority should be given to projects which are essentially and positively related to the rearmament programme, to the stimulation of exports to desirable markets, to the saving of imports, particularly from dollar sources, and to the relief of basic deficiencies, especially of raw materials. Other projects which, in the Committee's view, can contribute definitely to the general health of the economy by the technical development of industrial productions, and the more efficient and economical use of resources, should also receive favourable consideration.

But for the rest, the Committee should submit all applications to a very strict and searching scrutiny, with a view to eliminating any project which is not likely to produce positive results commensurate with the demands which it will make on the limited available resources. In particular, they should discourage all applications in respect of projects for the production of inessential goods, especially where these are intended mainly for the home market and consist largely of metal using projects.

I must ask also that the same strict tests should be applied in the case of applications relating to those borrowings from banks, which in accordance with existing practice under the Control of Borrowing Order, are referred to the Committee. In particular, the Committee will wish, in appropriate cases, to consider what stipulations they should make about the period of such borrowing and ultimate arrangements for repayment or for the provision of permanent finance, in conformity with the general credit policy which I have announced to Parliament. Moreover, where applications are made for consent to long-term borrowings to refund bank advances already taken up, the fact that the money has already been borrowed should not weigh with the Committee, who should concern themselves mainly with the eligibility of the purposes which have been financed by the advances or will in due course be made possible through the refunding operation.

It is important that the Committee should be able to reply on clear and realistic advice from departments. I am therefore taking steps to ensure that the departments concerned will consider in a critical spirit all applications which are referred to them, and will have full regard to the same criteria as those which the Committee themselves are asked to observe.

I hope that you will tell your Committee that I am very conscious of the valuable work which they do. They have an essential function to fulfil. I am greatly reassured to know that so competent and informed a judgment as yours will be brought to bear on the question of the direction of capital finance, which is an integral part in the new attempt by the present Government to grapple with the very serious economic problems which confront our country.

Yours sincerely,

(*Sgd.*) R. A. BUTLER.

The Rt. Hon. LORD KENNET,
P.C., G.B.E., D.S.O., D.S.C.

Hansard, Dec. 7th, 1951. Written Answers, Col. 328.

Pound Sterling: Purchasing Power

Mr OSBORNE asked the Chancellor of the Exchequer what is the internal purchasing power of the pound sterling to the nearest convenient date, as compared with 20*s* in July 1945.

Mr R. A. BUTLER: About 14*s* 3*d* in October 1951, as compared with an average of 20*s* in 1945.

Hansard, Dec. 4th, 1951. Written Answers, Col. 209.

National Savings Certificates, 1945: Value

Mr OSBORNE asked the Chancellor of the Exchequer how much interest has accrued to the nearest convenient date on a national savings certificate purchased for 15*s* in July 1945; and how much is both capital and interest worth allowing for the subsequent fall in the purchasing power of the £.

Mr R. A. BUTLER: 3*s* 2*d* and 13*s* 0*d* respectively.

Hansard, Dec. 4th, 1951. Written Answers, Col. 209.

Income Tax: Allowances

Mr DOUGLAS HOUGHTON asked the Chancellor of the Exchequer whether, in his search for effective checks upon inflationary expenditure, he will take steps to disallow all expenditure on entertainment as a charge against taxable profits; to disallow depreciation and maintenance charges on private motor-cars as a deduction from taxable profits except those bearing the name and business of the owner in a prominent place; and to remove the abuses of claims under

Section 34 of the Income Tax Act, 1918, especially tax relief on farming losses.

Mr R. A. BUTLER: As at present advised, I cannot agree that a case is made out for the sweeping proposals in the question. In any event, I could not anticipate my Budget statement.

Mr PATRICK MAITLAND: Would my right hon. friend investigate cases where inspectors of farmers' books have not been found to be suitably equipped for the task, and would he investigate a particular case where one of them was a bookie's clerk and another was an accountant who had failed to pass his exams.?

Mr BUTLER: If my hon. friend makes statements of that sort I would be very grateful if he would send me particulars so that I may examine them.

Hansard, Dec. 4th, 1951. Oral Answers, Col. 2234.

Double Taxation Agreement: India and Pakistan

Mr REMNANT asked the Financial Secretary to the Treasury what progress has been made towards a reciprocal tax agreement with India and Pakistan.

Mr BOYD-CARPENTER: Discussions with representatives of India during the summer failed to produce agreement on certain outstanding points. It is our desire in the United Kingdom to conclude a double taxation agreement and the first opportunity will be taken that offers scope for a resumption of the discussions. So far as Pakistan is concerned there have, as yet, been no negotiations.

Hansard, Dec. 4th, 1951. Written Answers, Col. 216.

Private Members' Bills

COMPANIES BILL

'to amend the Companies Act, 1948, so as to permit the issue of stock and shares of no par value and to permit the conversion of authorized stock and shares into shares of no-par value,' presented by Sir John Barlow; supported by Mr John Arbuthnot, Mr Erroll, Mr Odey, Mr Maudling and Sir Patrick Spens; read the first time; to be read a second time upon Friday, February 29th, and to be printed. [Bill 29.]

DIRECTORS, ETC., BURDEN OF PROOF BILL

'to modify certain enactments relating to the burden of proof in criminal proceedings against directors and certain officers of bodies corporate', presented by Mr Erroll; supported by Mr Geoffrey Hutchinson, Mr Renton, Mr Walker-Smith, Mr Ronald Bell, Mr Maudling, Sir John Barlow, Lord John Hope, Mr Spence, Dr Reginald Bennett and Sir William Darling; read the first time; to be read a second time upon Friday, February 29th, and to be printed. [Bill 36.]

Hansard, Dec. 5th, 1951. Cols. 2402 and 2404.

NOTES AND NOTICES

Personal

MESSRS PERCY MASON & CO, Chartered Accountants, announce that as from December 20th, 1951, their offices will be at 32 Queen Anne Street, Cavendish Square, London, W1. Telephone: Langham 7616 (three lines).

Official Receiver Appointed

The Board of Trade have appointed Mr Douglas Atkinson to be Official Receiver for the Bankruptcy District of the County Courts of Carlisle, Workington, Cockermouth, Whitehaven, Millom, Barrow-in-Furness, Ulverston and Kendal. This appointment takes effect from November 25th, 1951.

Obituary

SAMUEL SUTCLIFFE, F.C.A.

It is with regret that we record the death, on December 6th, in his eighty-first year, of Mr Samuel Sutcliffe, Senr., F.C.A., senior partner in the firm of Sutcliffe & Riley, Chartered Accountants, of Fountain Chambers, Fountain Street, Halifax.

Mr Sutcliffe served under articles with Mr John Freeman Dyson of Huddersfield, and was admitted an Associate of the Institute in 1902 and elected a Fellow in 1923. In the same year he began to practise in Black Swan Passage, and later in Harrison Road, Halifax.

Early in his career he was one of the auditors of the Halifax Equitable Building Society and remained an auditor of the Halifax Building Society up to the time of his death. He was a prominent Freemason and during his long period of practice was associated with many charitable and local institutions.

London and District Society of Chartered Accountants

A lecture on 'A prospectus: the lawyer's approach' will be given by Sir Sam Brown on Wednesday next, December 19th, at 6 p.m., in the Hall of the Chartered Insurance Institute, Aldermanbury, EC2.

Overseas Economic Surveys

Surveys of economic and commercial conditions in Nicaragua and El Salvador are the latest volumes in the series of Overseas Economic Surveys being issued by the Commercial Relations and Export Department of the Board of Trade. The surveys priced 1*s* 3*d* and 1*s* 6*d* net respectively are published by His Majesty's Stationery Office.

The Institute of Cost and Works Accountants

LONDON REGIONAL CONFERENCE

The second London Regional Conference to be arranged by the South of England branches of the Institute of Cost and Works Accountants was attended by nearly 200 members and students at *The Waldorf Hotel*, London, last Saturday, December 8th.

During the day three papers dealing with 'The problems of the expanding business', were presented. One on the personnel problem by Mr A. F. Stewart, manager, Personnel Division, British Institute of Management; a second on the production problem, by Mr F. G. S. English, M.I.PROD.E., general manager, Powers-Samas Accounting Machines Ltd (Production Division); and a third paper by Mr W. Coutts Donald, C.A., F.C.W.A., dealt with the financial and accounting problem.

The guests at the luncheon included the Right Hon. Lord Piercey, C.B.E., Mr J. B. Kinross, general manager, Industrial and Commercial Finance Corporation Ltd, Mr A. W. Muse, F.C.W.A., F.A.C.C.A., President of the Institute, and Mr W. T. Baxter, B.COM., C.A., Professor of Accounting, University of London.

Proposing the toast of the Institute, Mr Kinross spoke of the problems of the expanding business in terms of finance, and commented on the means of raising new money for expansion now that the best principle of all for finding this money – ploughing back profits – was restricted by penal taxation.

Mr A. W. Muse, replying to the toast, referred to the part played by the accountant as a member of the management team and mentioned the Institute's proposed Fellowship in Management Accountancy.

The Institute of Taxation

TWENTY-FIRST ANNIVERSARY DINNER

The Institute of Taxation held its twenty-first anniversary dinner at *The Savoy Hotel*, London, on Tuesday, December 4th, 1951; Mr Stanley A. Spofforth, F.C.A., F.S.A.A., A.C.I.S., President of the Institute, presiding over a company of more than two hundred members and their guests.

Among the guests were the Rt. Hon. Lord Justice Jenkins; Mr C. W. Boyce, C.B.E., F.C.A., President, The Institute of Chartered Accountants in England and Wales, and Mrs Boyce; Mr C. P. Barrowcliff, F.S.A.A., President of the Society of Incorporated Accountants and Auditors, and Mrs Barrowcliff; The Rt. Hon. Lord Latham, J.P., President of the Association of Certified and Corporate Accountants; Sir Eric St John Bamford, K.C.B., K.B.E., C.M.G., Chairman of the Board of Inland Revenue, and Lady Bamford; Mr J. Millard Tucker, K.C., and Mrs Millard Tucker.

The toast of 'The Institute of Taxation' was proposed by the Rt. Hon. Lord Justice Jenkins, who said in the course of his speech:

'When, many years ago, I filled in my first income-tax form, I inserted in the spaces allowed for that purpose the words "nil, nil, nil".' (Laughter.) 'I hoped for the best. . . .

'You will be anxious to learn what advantages I derived for my own personal tax affairs from the arrival of this Institute – the answer is "none". You see, I am a bachelor, I have no wife, child or pedigree herd of Jersey calves, and therefore, I still mark the columns "nil, nil, nil".' (Renewed laughter.)

In his reply to the toast, Mr Spofforth quoted from the address[1] by Mr E. G. Turner, M.C., F.C.A., entitled 'The effect of taxation upon industry and the individual', delivered at the recent autumnal meeting of The Institute of Chartered Accountants in England and Wales; he continued:

'Tax evasion by means of omitted sales, cash transactions and so on, may be worse on the Continent, but is still very substantial in this country. The harmful effect is not so much the money that is lost as the sense of injustice which is created in the minds of those people who have tax deducted from their incomes at source, and have no similar means of evasion open to them, and I am not referring to legal avoidance, where all the cards are put on the table.

'I accept implicitly what Mr Turner says, that our first duty is to our clients, but I do put out this thought: Is not there the possibility as a corollary of Mr Butler's appeal to industry and business of some "get-together" between the professional bodies concerned with taxation and the Board of Inland Revenue, to close some of the outlets through which the illegal evasion moneys flow?' (Applause.)

The toast of 'The Inland Revenue' was proposed by Mr F. Heyworth Talbot, K.C., and Sir Eric St John Bamford, K.C.B., K.B.E., C.M.G., Chairman of the Board of Inland Revenue, replied.

The toast of 'The Guests' was proposed by Mr Victor Walton, F.C.A., a member of the Council of the Institute of Taxation, and responded to by Mr C. W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and by Mr J. Millard Tucker, K.C.

Accountants Seeking Appointments

According to a recent issue of *The Ministry of Labour Gazette*, there were 1,148 accountant registrants on the books of appointments offices of the Ministry of Labour and National Service at September 17th last. Of this number 178 were unemployed, and 970 employed but wishing to change their positions; at the same time there were 287 vacancies. The co-existence on the register of vacancies and available applicants is explained by the inability of many to take posts away from their homes, and the difference between the qualifications and experience sought by employers and the qualifications and experience possessed by applicants.

[1] Reproduced, with part of the following discussion, in *The Accountant* dated November 24th, 1951.

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Industrial Assurance

The latest statistical summary[1] on industrial assurance to be compiled by the Industrial Assurance Commissioner, covers the period 1940–50 and tabulates the number of industrial assurance companies and collecting societies, with their business, income, expenditure, and total funds in each of the years during the period. A further section gives detailed figures of assurances taken up and discontinued during the years 1949 and 1950.

In 1950 there were fourteen industrial assurance companies with 75,371,000 paying and 15,096,000 free assurances, drawing an income from premiums and interest of over £130 million and with an expenditure of just over £99 million. Thus the total fund of the companies again increased and amounted to £703 million at the end of the year, as against £388,568,000 at the end of 1940.

British Life Assurance

A summary of British life assurance statistics for 1950 has been compiled by the Life Offices' Association and the Associated Scottish Life Offices from returns made by sixty-four companies established within the United Kingdom, and from the United Kingdom business of eleven oversea companies.

The summary shows that more than 7,100,000 people are covered under collective and group life policies, while 1,200,000 people participate in schemes with pension benefits.

New life business in 1950 totalled £593 million, an increase of 11 per cent over the corresponding figure in 1949. The life and annuity funds, representing mainly liabilities under policies, increased by £104 million, and totalled £1,779 million at the end of 1950.

Recent Publications

HOSPITAL ACCOUNTANCY AND FINANCE, by Geoffrey A. Robinson, A.C.A. xvi+408 pp. 9×5½. 40s net. Sir Isaac Pitman & Sons Ltd, London.

ABSTRACT OF ACCOUNTS for the Year ended March 31st, 1951, of the Metropolitan Borough of Hackney. 47 pp. 10×8. Town Hall, Mare Street, London, E.

ABSTRACT OF ACCOUNTS for the Year ended March 31st, 1951, of the County Council of Northumberland. 200 pp. 9½×7½. County Hall, Newcastle upon Tyne.

FACTS FROM FIGURES, by M. J. Moroney. viii+472 pp. 7×4½. 5s net. Penguin Books, Harmondsworth, Middlesex.

THE TECHNIQUE AND PRINCIPLES OF AUDITING, by Andrew Binnie, F.C.A., C.A., and Brian Manning, D.L., J.P., F.C.A. Second Edition by Brian Manning, D.L., J.P., F.C.A. xvii+381 pp. 10×6½. 35s net. Sir Isaac Pitman & Sons Ltd, London.

RANDOM REMINISCENCES, by Sir Arthur Cutforth, C.B.E., F.C.A. 55 pp. 8½×5½. 5s net. 5s 6d post free. Gee & Co (Publishers) Ltd, London.

THE ELEMENTS OF INCOME TAX LAW, by C. N. Beattie, LL.B., Barrister-at-Law. xxxv+190 pp. 8½×5½. 30s net. Stevens & Sons Ltd, London.

EXAMINATION NOTE BOOK FOR ACCOUNTANCY EXAMINEES, by the 'B.C.A.' Tutors. xiii+198 pp. 8½×5½. 12s net. Textbooks Ltd, London.

CANADIAN TAX PAPERS No. 3, THE GENERAL MANUFACTURERS SALES TAX IN CANADA, by John F. Due, PH.D., Professor of Economics, University of Illinois. xi+202 pp. 9×6. $2. Canadian Tax Foundation, Toronto.

CANADIAN TAX PAPERS No. 4, THE PROPOSED OLD AGE PENSION, by D. C. MacGregor, Associate Professor in the Department of Political Economy, University of Toronto. 32 pp. 6×9. 50 cents. Canadian Tax Foundation, Toronto.

CENTRAL AND LOCAL GOVERNMENT, by D. N. Chester. ix+421 pp. 9×5½. 30s net. Macmillan & Co Ltd, London.

COMMERCIAL GOODWILL, by A. Keith Sangster, LL.B., A.F.I.A., A.C.I.S. A research lecture sponsored by the Federal Institute of Accountancy, Adelaide.

THE MUNICIPAL OFFICE MECHANIZED, First Edition, by J. H. Burton, F.I.M.T.A., F.S.A.A., F.C.C.S., F.R.ECON.S. 127 pp. 8½×5½. 12s 6d net, 12s 11d post free. Gee & Co (Publishers) Ltd, London.

ABSTRACT OF ACCOUNTS OF THE CITY COUNCIL OF MANCHESTER FOR THE TWELVE YEARS ENDING MARCH 31ST, 1951, TOGETHER WITH FINANCIAL STATEMENTS. 67 pp. 9½×6. City Treasurer's Office, Manchester.

ABSTRACT OF ACCOUNTS OF THE CITY OF MANCHESTER FOR THE YEAR ENDING MARCH 31ST, 1951. xxvi+727+xxvii pp. 9½×6. City Treasurer's Office, Manchester.

WHAT IS THE LAW? No. 2. ADVANTAGES OF TRADING AS A LIMITED COMPANY, by Thos. A. Herbert, LL.B. (HONS.), of the Middle Temple, Barrister-at-Law. 24 pp. 7×5. 1s 6d net. Anglo-French Press Agency Ltd, London.

[1] Industrial Assurance: Statistical Summary, 1940–50. H.M.S.O. 6d net.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 16TH, 1876

Concluding paragraph of a letter to the Editor, entitled:

Touting

The only way to do away with touting, in my opinion, is to induce creditors, even when they have given proxies, to attend meetings *in person*. By so doing they supersede their proxies, and are competent to judge for themselves; but until creditors will take this trouble I am afraid that the outcry against touting, which is frequently but too well justified, will continue. I would, however, suggest to the various Societies of Accountants, that the Law Society should, so far as solicitors are concerned, define what is fair and what is unfair canvassing, in order that members of the legal profession may be brought to book when they offend; and that the various Societies of Accountants, following such a good example, should adopt a similar course. It must not be forgotten that a fair amount of push is justifiable in every business, but the line should be drawn somewhere.

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CHRISTMAS ISSU

The Accountant

ESTABLISHED 1874

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CHRISTMAS AND INCOME TAX

IT is a curious fact that although so much of the activity of the income-tax year is concentrated round Christmas, an overt reference to this great festival is nowhere to be found in tax laws and rules. The tax office programme is nicely arranged so that we receive our notice of assessment when we are busily engaged with our Christmas shopping. And what a forbidding-looking document it is, heavily edged with funereal black and couched in no cordial strain. Hardly are the Christmas festivities over before the day of reckoning, or rather payment, has arrived. And woe betide the incautious tenant who hastens to pay the Christmas quarter's rent to his landlord before Christmas Day, without taking care to pay his Schedule A tax first. For he will find on January 1st that he has to pay his landlord's tax without hope of recovering it until the next quarter.

There is indeed one small instance where the Inland Revenue relaxes and recognizes the existence of Christmas, but even then it is only by way of concession. We refer to the practice of not taxing the gifts in kind which subordinate employees receive at Christmas from their masters. This immunity has even been extended to gifts of savings certificates and the like where the war has made the usual gifts in kind no longer practicable.

It is pleasant to think of a modern Bob Cratchit hurrying home with his turkey – or somewhat less exciting savings certificates – without any disturbing thoughts about the effect which the gift is going to have on his P.A.Y.E. code number. Nevertheless, we feel that if this were all it would hardly be enough. We like to think rather that in a much wider and more general sense the whole conception of income-tax carries within itself some measure of the spirit of Christmas; that somewhere amid the welter of Royal Commissions, Committees of Ways and Means, Finance Acts, and all the complicated machinery for relieving the more fortunate of some part of their wealth and redistributing it in social services, there is surely present that outlook of benevolence and charity whose very symbol is Christmas. Scrooge's nephew said it was

> 'the only time I know of, in the long calendar of the year, when men and women seem by one consent to open their shut-up hearts freely, and to think of people below them as if they really were fellow-passengers to the grave, and not another race of creatures bound on other journeys'.

Perhaps then it is not so inappropriate after all that we are called upon to pay our tax at Christmas time.

The spirit, at least, of magnanimity and goodwill is ever exempt; in full measure therefore we wish our readers a right merry Christmas and a new year of good hope, peace and prosperity.

RECOLLECTED IN TRANQUILLITY

HOWEVER articulate accountants may be in writing about the various aspects of their profession, they have always shown a marked reluctance to embark on the wider sea of general literature. Several explanations may be proffered for this reticence. One is that the accountant's work is so continuous and exacting that his creative talent has dried up through disuse. Another is that the accountant must be the soul of discretion and tact in all that he does and, inevitably, several important clients would be sure to recognize themselves as the villain of his play or novel. A third is that so casually do accountants regard the arts that they would rather strive in their spare time to reduce their golf handicap than to add to the sum total of the world's literary masterpieces.

But whatever the real explanation is – for the above three should not be taken too seriously – this lack of productivity is to be regretted. Accountants in the course of their work see quite as generous and varied a cross-section of life from which to derive inspiration as many of the doctors, lawyers and teachers who have set down successfully, in some creative form or another, the experiences of their daily routine. Indeed, every office is a microcosm of human history containing enough material for almost every conceivable kind of literary essay from the anthropological study to romantic and social comedy and even, on occasion, stark melodrama. The form of literature, however, in which the accountant might most reasonably be expected to excel would be something more subjective than any of these: in fact, a reflective volume of personal reminiscences. In the course of one man's lifetime a long succession of people pass before him and the accountant's training is such that he should be an expert observer of men and delineator of character. New-comers to an office must often have been impressed in varying degrees by the tales of bygone principals and clerks, retailed to them by older members in a patronizing way which seemed to suggest that all the great office 'worthies' were of the past and that he (the newcomer) was unlucky in having somehow just missed living in the Golden Age of his new firm. 'They are all gone into the world of light, and I alone sit lingering here,' he may have murmured if he were sensitive and knew his Vaughan. If he were insensitive – which is more likely – he probably countered the tales of the ancients with some reminiscences of his own past heroes of other offices.

So seldom do these reminiscences find their way into the security of print, that a special welcome must be given to a small volume of memoirs by SIR ARTHUR CUTFORTH, C.B.E., F.C.A., which has just been published.[1] The individual chapters were written on lazy summer afternoons in the Lake District – an ideal setting for tranquil remembrance – and two of them, entitled 'Presidents – are they human?' and 'The expert witness' – have already appeared in these pages. The others contain interesting accounts of the five happy and profitable years – 'profitable in the shape of experience, of course' – spent by the author as an articled clerk, and of his subsequent experiences as a principal. Although casually pieced together, as the title implies, two remarkably clear pictures emerge from these recollections. One is of SIR ARTHUR himself, extremely able yet modest withal, and endowed with an impish sense of humour bordering on the irreverent and never quite under complete control. In whatever scrapes it landed him, it had the merit, in retrospect, of providing him with some amusing anecdotes for his book. The other picture is of the City in the early years of the century, a leisurely and civilized place compared with the maelstrom we know today. SIR ARTHUR describes admirably the atmosphere of those halcyon days as far beyond recall as the sovereigns and half-sovereigns with which the senior partners themselves paid the staff salaries each Friday. The interest taken by these august gentlemen in the progress of their pupils seemed altogether to be much more personal than the delegated control which is exercised over clerks today.

It is to be hoped that other accountants with 'world enough and time' will be inspired by this happy little book to recollect in tranquillity their own stories and to record them for a wider audience than their own intimate circle.

[1] *Random Reminiscences* by Sir Arthur Cutforth, C.B.E., F.C.A. (Gee & Co (Publishers) Ltd, London. 5*s*.)

PROFIT AND LOSS ACCOUNTS IN THE FUTURE

by ANGUS MACBEATH, C.A., A.C.W.A.

CALCUTTA UNIVERSITY CENTRAL LIBRARY

In his article entitled 'Balance sheets in the future' published in 'The Accountant' dated December 1st, 1951, Mr MacBeath suggested that fixed assets and all current assets may in the future be valued for balance sheet purposes at the replacement value current at the balance sheet date. The repercussions of this treatment upon profit and loss accounts, and other possible developments in and affecting those accounts, are considered in this article.

THERE is a growing tendency today to give scant attention to the balance sheet and to concentrate the main consideration upon the profit and loss account.

The reasons for this preference appear to be firstly, that the usual balance sheet does not reflect the true value of a business but is merely a record of book figures some of which may bear very little relation to current values and secondly, that a business which is earning a satisfactory rate of profits is in a healthy state, while a business whose profit and loss account shows a small profit or a negative result is in a less healthy condition.

Main Requirement

The main requirement which is expected from the profit and loss account is that it will reveal the trend of profits.

The Companies Act, 1948, sets out quite deliberately to make illegal the non-disclosure of any matters which might prejudice the revelation of the true trend of profits in the profit and loss accounts of limited companies.

Thus, any changes which have been made in the accounting procedure between the profit and loss account of one year and of the next year must be disclosed, and details must be given of the movements in reserves and of any usings of provisions for purposes other than those for which they were set up. It is also necessary to disclose any exceptional or non-recurrent transactions and any which are of an unusual nature.

The Companies Act, therefore, by a process of the elimination of the exception, attempts to make profit and loss accounts show true comparable profits from which the trend of the earnings of the companies may be ascertained.

This trend is a significant feature in the struggle between the balance sheet and the profit and loss account for predominance since it is a feature which the balance sheet is unable to emulate. The great advantage which the profit and loss account has over the balance sheet is that its transactions are confined to a short space of time while the balance sheet is endless in containing items which may have been there since the business began.

Form of Profit and Loss Account

A noticeable feature of present-day accounting is that the form of the profit and loss account in published accounts is rapidly changing over from the two-sided to the vertical form of set-out which lends itself to a neat and logical presentation of the profits or losses position each year, whereas the balance sheet has been maintained primarily in the two-sided form which has been in use since the beginning of double-entry book-keeping. Some published balance sheets are now given in vertical form, but this method of presentation is still in the experimental stage so far as balance sheets are concerned.

Contents of Profit and Loss Account

Since the main requirement of the profit and loss account is to show the true trend of profits, it is usual to keep income of an exceptional nature, or capital receipts, out of the account itself and to show such items either in the appropriation account or in the balance sheet.

On the other hand, capital losses may be written off in the profit and loss account itself; for example, obsolescence incurred, for which no reserve had been made or was available, would probably be written off direct to profit and loss account. The charge for depreciation is also a provision for an anticipated loss of capital.

In the article which considered balance sheets in the future, the suggestion was made that fixed assets and stock-in-trade may eventually be recorded in the balance sheet at current cost of replacement. This treatment in balance sheets would have repercussions upon the usual contents of the profit and loss account, and it is suggested that the profit and loss account would either become divided into three sections comprising: realized profits and losses; exceptional realized profits and losses; unrealized profits and losses;

or, alternatively, the profit and loss account would be maintained in its present form and be accompanied by a separate statement showing the unrealized profits and losses or the movements in the balances of unrealized profits and losses from the previous year. (The charge for depreciation (renewal) would continue to be treated as a realized loss.)

It is probable that the latter procedure would be the better one to adopt, because the object to be achieved is to have the profit and loss account record the realized profits or losses for the year and to keep separate all movements in reserves and provisions which have not yet been realized.

The new considerations which arise are in the introduction of replacement cost values for fixed assets and for stock-in-trade. Fluctuations upwards or downwards in either of those values are not realized differences so long as the assets or the stocks are still held. It would be injudicious, therefore, to include increases in value as profits available for distribution, and unnecessary to write off decreases as losses since changes in market conditions may result in those apparent losses never being suffered. The fluctuations should therefore be recorded separately and adjusted as necessary each year.

Vertical or Two-sided Form?

It seems certain that the vertical form for the set-out of the profit and loss account will continue to be more widely used and to supplant the two-sided form. The adoption of the above points would therefore probably result in the profit and loss account being continued in the vertical form, starting off with the trading profit for the year and working through to the balance carried to the balance sheet, after showing the movements in the realized reserves.

The latter suggestion regarding movements in reserves is made because the number of schedules which accompanies the normal set of accounts should be kept to the minimum to avoid confusing the shareholder or other recipient of the accounts. It seems to be quite sufficient to have a profit and loss account and a statement of specific allocations without adding further statements or schedules.

The profit and loss account would include, therefore, all the changes which have taken place between the reserves and surplus total in the balance sheet of one year and in that of the next year.

This position may involve a transfer between the specific allocations statement and the profit and loss account as, for example, when investments are sold or allocations of profits are made. These transfers can be stated and described quite simply.

Specific Allocations

Now we come to the statement of specific allocations and this statement would probably include amounts which represent unrealized acretions in value over cost of assets; amounts which have been specifically appropriated for anticipated expenditure or to meet anticipated losses (examples are, cost of replacement, or loss on realization (obsolescence) of fixed assets), and amounts set aside for future taxation.

The simple way to set forth this statement is as follows:

Statement of Specific Allocations

Total at December 31st, 19		£
Add Allocations from profit and loss account for:		
(*a*) replacement of fixed assets	£	
(*b*) obsolescence of fixed assets..	£	
(*c*) diminution in value of stock	£	
(*d*) future taxation	£	
		£
Add Increases in replacement cost of:		
(*a*) fixed assets over original cost	£	
(*b*) stock-in-trade	£	
		£
Less:		
Obsolescence on fixed assets sold	£	
Decrease in market value of investments	£	
Loss on realization of investments	£	
Future taxation at December 31st, 19.., transferred to provision for taxation accrued ..	£	
		£
Total at December 31st, 19 ..		£
Made up thus:		
Replacement of fixed assets		£
Obsolescence of fixed assets		£
Diminution in value of stock		£
Diminution in value of investments ..		£
Future taxation		£
		£

Alternatively, if space is available, the statement can be shown in tabular form with one column to each specific allocation, and the narrative on the left-hand side, commencing with the balance at the previous year and closing with the balance shown in the balance sheet.

How are the amounts included each year in the

statement of specific allocations to be ascertained? Do the replacement calculations place too great a burden upon a company?

The calculation of the replacement cost of fixed assets has already received wide discussion and will not be re-examined here. The basis of valuation of investments was discussed in the article on balance sheets in the future.

Stock-in-trade

The valuation of stock-in-trade raises separate issues, as it is to be hoped that little, if any, of the stock held at one year-end will still be held at the next year-end, and there must be a charge in the trading account for the value of materials consumed which will make the trading profit figure the true realized profit for the year.

The replacement cost of stock will usually be the last or current price for purchase of materials and in the stock of a manufacturing business the current rates of wages and overheads will be the appropriate costs for those elements of the total cost. Finished stock would be valued at the current selling price, less delivery costs where the selling price included those costs.

The original cost values of stocks at the beginning of the year, purchases and manufactures, and stocks at the end of the year will be taken into the manufacturing or trading account in the usual way. The difference between the original cost of stocks and the replacement cost will be a balance sheet adjustment, the amount appearing on both sides – as a debit in the stock figure itself and as a credit among the specific allocations. Increases and decreases in the difference each year would be shown through the statement of specific allocations.

The procedure outlined would not appear to be in any way difficult and there can be little doubt that knowledge of the current 'cushion' (or deficiency) between the original cost and the replacement cost of its stock-in-trade would be of value to any business. Some businesses, however, carry stocks which do not lend themselves to such a simple method of treatment.

Special Stocks

Contractors, for example, may find their year-end coming at a time when there are several large contracts partially completed. Can we apply replacement cost to a contract? Can we ever say accurately how much has been realized up to date?

There are several methods of calculating the value to be placed on a partially finished contract, each method involving some estimate whose fulfilment depends upon the circumstances attaching to the completion of the contract.

Such special work-in-progress items cannot be treated in the same way as a manufacturing or trading stock and the circumstances attaching to loss are quite different. The treatment which could be applied in those special cases would appear to be:

(*a*) Value stocks of materials not appropriated to any job or contract at replacement cost and adjust the difference each year with original cost in the balance sheet.

(*b*) Value work in progress at the estimated value of work done to date and set up a specific allocation to meet any loss on that value which may arise when the job or contract is completed.

Deficiencies

The next point to consider is the position which arises when any one of the specific allocations is insufficient to meet the amount required, that is, when the difference between the current value and the original cost has become so wide that it has exhausted the whole of the amount of the previous credit differences and also all the allocations made from the profit and loss account.

This situation would arise where there had been a very sharp fall in the replacement cost of fixed assets, or stock, or the market value of investments had fallen to a low level.

It may be found, for example, that the amount included in specific allocations for the cost of replacement of fixed assets stands at £500,000 and that the totals under fixed assets in the balance sheet are:

	£
Original cost	8,478,546
Approximate replacement cost ..	7,841,128
Difference ..	£637,418

The recalculation of the renewal provisions deducted from the approximate replacement cost shows an excess of £112,418, so that there is a net shortage of £25,000.

Since this is a position which is liable to constant fluctuation, and which may therefore be more than reversed at the next balance sheet date, it does not seem necessary to write off the deficiency.

The simple way to cover this deficiency is to show the total of the items in deficiency as a deduction from the total of reserves and surplus, before the latter total is added to the ordinary share capital.

I ENJOY MY JOB

A CHARTERED ACCOUNTANT'S CONTENTED REFLECTIONS

by F. C. AUTOLYCUS

I HOPE my old housemaster will read this: he always wanted me to be a journalist. Indeed, he arranged that I should meet an eminent literary critic to discuss ways, means and prospects. The critic was very kind and gave me excellent advice and I decided to become a chartered accountant. My housemaster was grieved and gave me to understand that he considered the time and trouble he had spent on my education had been wasted: I have never been able to persuade him that I have chosen an enjoyable, interesting and useful job, indeed, he has always avoided the subject. If he sees it in print he may believe me at last, and I shall be glad, for he is characteristic of many of my friends and acquaintances who barely disguise their disappointment, and even distaste, when they learn that I am an accountant.

Not unwillingly to School

At the safe distance of fifteen years, and in the knowledge that few, if any, articled clerks will stop to read an article with a title so lacking in *le haut sérieux*, I am prepared to assert that I enjoyed the job from the start. Casting was, of course, a blow to my pride and an exercise in humility. The very first column I tackled, on the very first day, failed to agree (even after three attempts) with the book-keeper's total. As each of my answers differed from the others, I suggested to my senior that the book-keeper, having had more experience than I, was probably right. It was not a particularly clever or amusing remark, and was not well received, but it gave me a certain pleasure. I was given ample practice and before long found, with real pride, that I could cast (and cast accurately) and plan my summer holidays at one and the same time.

I enjoyed the out-of-town jobs – the companionship of the long train journey, the satisfaction of the solid detail, the petty triumph of finding a mistake. And it was a new experience to meet the 'characters' at the factory; faithful old George, for example, who after long service was asked what inscription he would like in the presentation gold watch and chose:

'To George, after fifty years' work during which he was late once – the day the dog bit him.'

Salad Days

Memory gives us rose-coloured spectacles but at this distance I seem to recollect that the examination work was not too bad. We were lucky in our senior, now a most important person, who managed to combine real friendliness and concern for our well-being with an iron discipline. Out of town he had a rule 'No bridge till ten o'clock, or until you've finished a full-scale T.B. – whichever is the later'. He made us keep our personal accounts in the most meticulous detail, even down to providing for depreciation on our clothes. The test papers were given interest by combining the results into a mass of statistics – moving averages and the like – which kept the spirit of competition alive.

I took snobbish pleasure when the examiner gave me nought out of ten for one of the best answers I ever wrote. The question was 'What is the excise?' and my answer, 'The excise, as defined by the Great Lexicographer, is a blackguardly imposition levied by a pack of the King's ruffians'.

Financial incentives were not unimportant. In a moment of insight my father gave me some money to invest for myself on the Stock Exchange. In the first year I made £100 and gained an enormous amount of G.C.K. In the second year I lost £100 and learned wisdom without price!

There were half-yearly celebrations, with rare gaps, to encourage us on our way. The examination results invariably came out when we were working out of town; the proprietress of our hotel always gave us one bottle of champagne and we bought another. The fear of our colleagues' disappointment should we fail acted as an important spur. In short, we decked out our three- or five-year term of hard labour with a variety of trappings to make it interesting, exciting and even amusing and in due course emerged as qualified chartered accountants.

Loan oft loses Both Itself and Friend

The first few years as an A.C.A. are probably the most difficult of an accountant's life for it is then that the course is really set. I was lucky, for mine coincided with a period of receiverships and there is surely no better way of learning about accounts,

business methods, and human nature than on a receivership.

The first day of taking over was always a glorious adventure. Once, at a garage, I remember finding a dozen or more coal lorries filling up with petrol as hard as they could go in order to build up a contra account. And on another occasion I had all the insurance agents in to examine the company's policies to see if all conceivable risks were covered. They confirmed that they were, but half an hour later I burned my own trousers on an electric fire and was speedily disillusioned. The fire policy did not cover it, because apparently it was not a fire. The public liability policy did not, for I was not a member of the public. The employer's liability policy was no use, for I was not an employee. Apparently, they said, I was a licensed trespasser, and no policy existed covering risks to such a person!

Receiverships, I found, abounded in snags and excitements. On one job the typist was a fifth-columnist for some of the creditors; on another the managing director had a loaded revolver in his desk, whilst on a third the secretary had forged great numbers of cheques. And the public at large pity the monotony of the accountant's life!

Wise Saws and Modern Instances

Many in the profession deplore the vast amount of literature which has to be consumed if one is to keep up to date. It is, I grant, rather terrifying, but much of it is far from dull. Take the tax cases: they are often of absorbing general interest and give an unrivalled insight into the private side of commercial and financial methods. The *Smith's Potato Crisps* case, for example, is a most interesting description of business organization, whilst that of *Eagles v. Rose* is a saga of fire-watching in the East End of London during the blitz which deserves a wider audience. The latter case, incidentally, makes hilarious reading and in the end the decision turned on the fact that a certain envelope was alleged to have contained two rashers of bacon and not one!

The actual outcome of the cases does not seem to me to matter very much: all that is necessary is to get an idea of the type of thinking which determines the issue and to fix in one's mind the fact that a case exists on the subject. It can then be readily traced when it is needed. *Hansard*, too, has its big moments, particularly about Budget time. Who could fail to enjoy, for instance, the episode when a member pontificated at length on the evils of the avoidance of tax by the *Hall v. Marians* arrangement. 'So you see', he concluded, 'it is quite easy. All you have to do is to ship your overdraft overseas.' The House rose to the occasion and as from a single throat came the response 'Tell us more!'

But at my back . . .

The greatest bugbear today is lack of time to do the things one wants, or ought, to do. It can become a fatal impediment to the enjoyment of one's work and three observations may be worth making: in the first place it is fatal to allow one's desk to become overloaded – to take on more than one can reasonably handle leads to muddle, anxiety and worry. Secondly, there should be a reasonable division between time spent doing work, and time spent telling other people how to do it. In this I speak for myself but my experience is that I am happiest when advisory or supervisory work is leavened by preparing a computation or drafting an account on my own. And thirdly, it is important that direct, chargeable time should not become such an obsession that any time which cannot be booked to a client seems to be time wasted.

I had an experience of this point last year: on the final evening at Oxford, in the five minutes before Hall, I picked up a morsel of recondite information which I tucked away in the hope I might one day make use of it. It was relevant to the first matter which came to my attention when I returned to the office the next morning and that short informal conversation had saved me several hours of research and inquiry.

Cakes and Ales

It seems to me that it is not difficult for a practising accountant to enjoy his job if only he is prepared to allow that it is more than just a way of earning a living. Many of us, lecturers and students alike, must be grateful to the post-war refresher courses for teaching us this. The personal contacts which began on those courses have gradually expanded and have breathed life into the district societies, Oxford summer schools, private discussion groups, district taxation and research meetings, dining clubs and autumnal conferences which provide the opportunity for the rich exchange of ideas, debate and controversy which today makes the profession so live and dynamic.

If any stand shyly aside they must be assured that the doors are wide open to all and that if they are prepared to let their work spill over just a little into their private lives they will find a rich reward.

WHAT I THINK OF INSPECTORS OF TAXES

By an Accountant

ON one occasion I shared a music-stand with an inspector of taxes. It was not a very successful partnership, as, although we were playing the same part, he was playing it on a 'cello and I on a double bass; he was sitting and I was standing, a relationship which suggests the humble approach to which accountants have become accustomed when introduced into the august presence of the inspector. As a rule we accountants go hat in hand (as there is nowhere else to put it) and are astonished at the bleak surroundings in which such important officials are compelled to work.

Mastery of Accounts

What of the inspector himself? The accountant is always impressed at his mastery of complicated sets of accounts and his detailed knowledge of different industries; but life in the Civil Service is supposed not to encourage initiative and it is surprising how little attempt the inspector makes to show any individual personality in his own office. Perhaps he feels that he is never long enough in one district to make it worth while.

A Frustrating Life

It must be a frustrating life to see how easily some people earn a comfortable income even if it is equally painful to have to certify a claim under Section 34. Some inspectors doubtless dream of the successful business they could run, leading them to feel quite annoyed at the falling-off of profits and to demand explanations as to the reason for the failure last year. One company was so exasperated at the inspector's disbelief in the alleged results of the Catering and Wages Act that they offered him the post of managing director of the hotel if he would guarantee better profits! The offer was refused on the grounds that 'the benefits in kind' (of living-in) would be taxable.

The Fair, Fearless and Friendly Inspector

Accountants are fortunate that the raising of the major part of the national income is in the hands of a body of men who do their difficult work with fairness, fearlessness and friendliness. If we are sometimes surprised at the trivial corrections some make in our computations, we are equally grateful when we are reminded of a claim we have overlooked.

To get to know the inspector is a privilege accorded to many accountants; behind the cold exterior we often find the proud father, the plus-four golfer or the churchwarden.

It was a kindly thought of the inspector who warned me in good time that my daughter should be born before April 6th. In co-operation with what is now another government department, the national health service, this should be easier to arrange in future.

The Absent-minded Professor

It was also a real feeling for the absent-mindedness of professors which prompted the inspector to call in person on an academic friend of mine at Oxford. He happened to be holding a tutorial to four young men when the inspector knocked. 'Come in and sit down', said the professor impatiently, continuing to pace the room and deliver his notes on Greek mythology. Pausing, he felt a slight rise of temperature. Almost bursting with indignation, the inspector said, 'I have called about your income-tax return'. The professor returned to earth and paled. Feeling in his pocket he fumbled for some money. 'I must beg your pardon', he said. 'You will find all your communications in the top drawer – I regret to say unopened. How much do I owe you?'

There are, however, two minor complaints I should like the inspector to note. The first is that he should ask the tea-girl not to bring in one cup of tea during an interview; the second is to suggest that when, as sometimes happens, he is wrong, he should express his regrets, even if he does it on a form No. 145B. This is a very small form but it need only be a very small apology and no one need know, as apparently no copy is necessary for the file.

Accountants the First with Goodwill Wishes

Inspectors, like us, have a domestic life, and at this season when our thoughts are guided to the opening chapters of a book written by the patron saint of tax gatherers – St Matthew – accountants will want to be the first to wish inspectors and their families an enjoyable Christmas free from all Christmas gift worries (are they taxable?) and a prosperous New Year free from any associations of 'First instalment due . . .' Oh! the blessings of P.A.Y.E.!

WHAT I THINK OF ACCOUNTANTS

By an Inspector of Taxes

APART from the odd lunch, my contacts with the accountant have been almost entirely official and I must frankly admit that I have thought very little about him: for as long as I can remember he has been an integral part of my particular world – he has been there, and he has been accepted. This may sound a little offhand and ungracious, but when you reflect that I and my like are accustomed to accepting virtually nothing without question, the profundity and sincerity of the compliment will become apparent.

I recall the first I encountered as a new recruit. Greatly daring, I had settled an appeal and sent out an amended notice of assessment. A couple of days later the accountant called and asked. for me. Grateful for the counter between us, I faced a huge mountain of a man, wondering what crass stupidity of mine had caused him to heave his vast bulk up the office stairs. To my great relief he drew my attention, in a high piping treble, to a small error in his client's favour in the life assurance relief. From that day I have never been afraid of the accountant, though I admit to having cold feet at the prospect of certain interviews.

Kindly Teachers

I think of those kindly men who taught me the meaning of the technical terms used in innumerable industries; of the impressive patience of the Manchester accountant who explained the mysteries of cotton buying, 'hedging' and 'futures'; of the even greater patience of his City confrère who led me through the menagerie of Stock Exchange jargon; of the avuncular amusement of the country accountant who found it necessary to explain to a town-bred city-trained know-all, in charge of his first district, the facts of life affecting milk production.

I think of the accountant as a type, my mind conjuring up a composite picture, perhaps not truly representative since my recollections of the professional men in provincial cities and country towns are a little dimmed – though I seem to remember that North Country accountants are inclined to be shorter and sharper in argument, but more ready to settle than their London brethren.

Picture of the Average Accountant

My picture is of a man slightly above average height, with regular features, well-nourished but not given to fat, with the air of contentment and well-being of the average sur-tax payer. His taste in suitings is impeccable, quiet, chaste, but not drab, his hand-oversewn lapels an indication that he has at least one good tailor for a client. His neckwear excites my admiration, whilst his neat, and often natty, shirtings put my CC41's to shame. I always see him crowned with a bowler hat. In this I may be a little out of date, but I must insist on the bowler for, as one philosopher has argued, it is not so much headgear as a state of mind. Prominent in my picture is a bulging brief-case of the best leather.

The Accountant's Manner

In manner, my accountant is confident but courteous, pertinacious but not provocative, ready and resourceful in argument but not unduly unreasonable. By religion he is, I fancy, a freethinker, ever ready to question and sometimes even to deny the divine inspiration of my official instructions.

We get on well because we understand one another; there is no language difficulty as there can be in dealing with the legal profession. The lawyer does not really understand figures anyway, and never in any circumstances talks 'off the record'. My accountant *really* understands the fascinating and elaborate game of income-tax, playing it with propriety and scrupulously observing the niceties of its complicated code of rules.

The Tactful Accountant

I like him when he sends me accounts backed up with analyses and schedules, leading up to computations that I have only to tick. I *love* him when he does all that but decides a doubtful point wrongly, agreeing with me when I point it out and letting me amend his figures.

You will have gathered that I am fond of my accountant. He ministers to my sense of self-importance in answering questions and providing information at my behest without demur, usually on stationery which I feel is just a little too expensive for its purpose. I could not live without him. For years now he alone has made my life possible – even though in the odd case he has done his best to make it impossible.

I wish him the compliments of the season. May his double taxation relief computations never have to be amended.

AUSTRALASIAN COMMENTARY - V

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

Management Accounting

DURING his recent visit to Sydney, Mr F. R. M. de Paula, C.B.E., F.C.A., addressed a large assembly of accountants belonging to a number of different institutes. To this broad cross-section of all types of accountants Mr de Paula drove home with calculated care his main point, that for the accounting profession to be able to play its part in the stabilization of the economy through a soundly administered and economically productive commercial and industrial world, it must be prepared to produce accountants without the historical-cost complex. They must be able to look forward instead of backward. They must concern themselves with costs as they ought to be, not with costs as they have been.

It is not, of course, a matter of abandoning accounting based on historical cost, but rather that the profession should cultivate the avenue of management accounting in something like the way it has built up taxation practice as a specialized field. Mr de Paula thought that public accounting firms could be staffed with experts in the various fields in order to maximize both the firm's efficiency and the service they could render to the public. This is done to some extent already, but his main concern was that management accounting should be catered for.

It is interesting to note that one Australian Institute has, within the last six months, changed its final accounting syllabus so as to set one complete paper on this subject.

Company Taxation Amendments

Proposed amendments to income-tax law include the abolition, as regards public companies, of super-tax at the rate of 1*s* in the £, and also undistributed profits tax at 2*s* in the £. Substituted rates of tax applicable to public companies will be a primary tax of 7*s* in the £ of taxable income and a special levy of 2*s* in the £ of taxable income. There is also a scheme to be implemented whereby public companies will be required to make an advance payment equal to 10 per cent of the total of the tax at the primary rate and the special levy.

The proposed rates applicable to private companies are 5*s* in the £ on the first £5,000 of taxable income and 7*s* in the £ on the balance. A private company within the meaning of our taxation statute is a very special creature which may bear little or no resemblance to a proprietary or private company within the meaning of the various Companies Acts.

Taxation and Inflation

Speaking of taxation, an editorial in *The Chartered Accountant in Australia* (October 1951) points out that Mr Colin Clark, one of Australia's leading economists, once estimated that total taxation could not exceed 25 per cent of the national income without starting an inflationary spiral. This was supported by the late Lord Keynes. The editorial adds that Sir Douglas Copland estimated in a national broadcast the night after the Budget was presented that, 'Commonwealth taxation as a whole is now, approximately, 30 per cent of national income'.

Accountants and Defence

An accounting advisory panel has been appointed to advise the Commonwealth Government on the framing and observance of its defence contracts with private industry. At present the panel consists of five of Australia's leading accountants, but it is hoped that two others named will consent to act. The Minister for Supply pointed out, in announcing the appointment, that a particular matter for study by the panel is how defence contracts may be made more acceptable to industry at a time when larger profits are available from civilian contracts.

Valuation of Shares

Mr G. A. Lau, LL.D.(LG.), M.COMM.(N.Z.), A.P.A.N.Z., recently expressed the view that in the valuation of unlisted shares, there is scarcely a case where the capitalization rate in a private company should be less than 8 per cent; that in most cases it should be somewhere between 10 per cent and 15 per cent; and that in the case of small manufacturing companies or companies running a risky business, the capitalization rate could be 20 per cent or more.

Mr Lau considered that accountants were the persons best qualified to value unlisted shares,

but it must be conceded that the profession had some distance to go before this assertion could be warranted. He remarked that in all probability the articles of over half the 7,000 or so private companies in New Zealand include in the pre-emption provisions a clause which leaves the final decision on the value of the shares to the auditor of the company. (*The Accountants' Journal*, New Zealand, September 1951.)

Break-even Analysis

The October and November 1951 issues of *The Australian Accountant* carry articles on the subject of break-even analysis by Professor Joel Dean, of America. For anyone interested in this subject these articles, specially written for the journal, are of the greatest possible importance. There is so much valuable material packed into the writing that it is difficult to choose between one point or another as worthy of mention.

We can notice, however, one thing. Professor Dean, after pointing out that it was not clear what benefits would come from expressing activity as a percentage of 'capacity', said:

> 'The notion that there is some "safe" break-even percentage makes little sense, for the peril of a particular break-even point depends on the probability that production will go below it. And this probability depends on demand, which has no logical relationship to capacity.'

Economics and Accounting

In view of the findings of the Joint Exploratory Committee, recently published in England, it is interesting to note the views of Mr D. Cantle, B.EC., on the correlation of economic and accounting concepts. He submits that modern economists are not formulating their theories of capital and investment (or 'asset formation') in terms of cost and exchange values.

In the Keynes' schedule of the marginal efficiency of capital and trade cycle theory, capital, he pointed out, is not cost value or replacement value of capital – it is utility. His opinion being that accountancy is not yet equipped to measure utility, it follows that he concludes with the view that we must to some extent forgo our attempts to follow economic thought with accounting methodology. (*The Australian Accountant*, October 1951.)

Commercial Goodwill

The Arthur Capper Moore Research Lecture for 1951, sponsored by The Federal Institute of Accountants, was given by Mr A. K. Sangster, LL.B., A.F.I.A., on the subject of commercial goodwill.

At the conclusion of a review of the cases, he found that goodwill in a legal sense appeared to be largely restricted to relationship with customers. No reference appeared in the cases as to the effect on goodwill of such matters as international affairs, general industrial difficulties, nationalization of industry or price control. He pointed out that, nevertheless, the framework of legal decisions within which accounting theories on goodwill may finally have to be examined is broad and elastic. This is a timely reminder, for there are too many accountants who consider that the lawyers have failed to do their job by not deciding things for accountants.

After an examination of the views of a number of accountancy text writers, Mr Sangster came to the conclusion that the present prevailing view is neither to analyse goodwill nor to relate it to valuation, but to regard business enterprises as a whole and to value them as such, lumping together both the tangibles and the intangibles.

Disruptive Influence

Referring to government control and other outside influences, Mr Sangster pointed out that there are sufficient economic, governmental and international forces potentially disruptive of normal business and beyond the control of those who conduct private enterprises, to constitute a risk of twofold relevance to a study of goodwill. The risk referred to is

> 'that the present profit-making opportunities will either be reduced, or will be maintainable only by the exercise of extraordinary skill and perhaps good fortune'.

Ultra Vires Doctrine

The Victorian Companies Advisory Panel of The Federal Institute of Accountants thinks that probably the business community is not yet ready for the abolition of the *ultra vires* doctrine as applied to the objects clauses in the memorandum of association. But they put forward the view that in the meantime an improvement could be made whereby the memorandum can be drawn so as to express objects only and leave powers to be implied by statute as is the case in South Australia and Western Australia.

In those States the respective Companies Acts provide a detailed schedule of twenty-three powers which a company is deemed to possess unless specifically varied, restricted or augmented. (*The Federal Accountant*, November 1951.)

Season's Greetings

On behalf of readers in Australia, the writer would like to convey sincere Christmas Greetings and very best wishes for the New Year.

CHRISTMAS COMPETITION
GENERAL KNOWLEDGE QUESTIONS

We offer three prizes of books, to the value of five guineas, three guineas and one guinea, to be selected from the publications of Gee & Co (Publishers) Ltd, for the best three sets of answers to these questions. Entries should be addressed to 'Christmas Competition', 'The Accountant', 4 Drapers' Gardens, Throgmorton Avenue, London, EC2, and must be received not later than 5 p.m. on Monday, December 31st, 1951. The Editor's decision on all matters connected with the competition is final.

Army and Navy

1. Who is the President of the Army Council?
2. What regiment has the unique distinction of wearing a replica of its badge on the back of the helmet or cap?
3. How many points are marked on a mariner's compass?
4. What flag is flown by (*a*) an admiral of the Royal Navy, (*b*) the Royal Yacht Squadron, (*c*) the British Merchant Service?
5. What authority controls the lighthouses of the British Isles?

Blood and Thunder

6. How many pints of blood does the human body contain?
7. What is the red substance in blood which is responsible for conveying oxygen from the lungs to the rest of the body?
8. What English physician made the discovery that blood circulates round the human body?
9. What are the components of gunpowder?
10. Who were the assistants, man and dog, of Sexton Blake?

Cakes and Ale

11. Who asked: 'Dost thou think, because thou art virtuous, there shall be no more cakes and ale?'?
12. What two novelists were supposed to be satirized in Somerset Maugham's novel *Cakes and Ale*?
13. What is, or are: (*a*) *petits fours*, (*b*) *crêpe suzette*, (*c*) *charlotte russe*?
14. What modern poet wrote:
    'Ale, man, ale's the stuff to drink
    For fellows whom it hurts to think'?
15. What Shaw character was 'only a beer teetotaller, not a champagne teetotaller'?

City and Suburban

16. What are the six largest cities in the world?
17. Who described himself as 'a citizen of no mean city'?
18. What London bus routes run from: (*a*) Willesden Green to Lewisham; and (*b*) Crystal Palace to Golders Green? Where do they intersect?
19. Whose birthplace is traditionally claimed by seven cities?
20. Who wrote:
    'For there is good news yet to hear and fine things to be seen,
    Before we go to Paradise by way of Bethnal Green'?

Crabbed Age and Youth

21. Who asked of Pip in *Great Expectations*: 'You don't object to an aged parent, I hope?'?
22. What Italian painter depicted the three ages of man as a sleeping infant, a shepherd with his flute, and an old man meditating on two skulls?
23. Who said that poets told tales 'which holdeth children from play, and old men from the chimney corner'?
24. What youth in a modern novel 'though he was burned black as any native; though he spoke the vernacular by preference, and his mother-tongue in a clipped uncertain sing-song . . . was white – a poor white of the very poorest'?
25. What poet suggested that the Child is father of the Man?

Elephant and Castle

26. Who was Little Toomai of the Elephants?
27. What is the average expectation of life of an elephant?
28. What is the land of the Sacred White Elephant?
29. Who was the owner of Doubting-Castle?
30. Who wrote the following novels: (*a*) *The Castle*, (*b*) *Hatter's Castle*, (*c*) *Crotchet Castle*?

Finance and Commerce

31. What are the functions of the National Debt Commissioners?

32. What device is used by the Treasury to check undue fluctuations in the value of sterling in terms of gold and foreign currencies?
33. In which year between the wars did the famous Wall Street crash occur?
34. What are the six Scottish note-issuing banks?
35. What is (*a*) a jerquer, (*b*) barratry, (*c*) a Suez Canal clause in a marine insurance policy?

Fur and Feather

36. To what animals do the following collective nouns refer: (*a*) a shrewdness of . . ., (*b*) a pride of . . ., (*c*) a clowder of . . .?
37. What is: (*a*) a goosander, (*b*) a kittiwake, (*c*) a capercailzie?
38. What four birds flew to England this year to maintain a tradition more than 250 years old?
39. What is a scut?
40. Whose nightingale (*a*) wast not born for death, (*b*) sang nightly in a pomegranate tree, (*c*) cried to the Rose?

Hail and Farewell

41. What play opens with the words: 'When shall we three meet again'?
42. What crocodile welcomed little fishes in 'with gently smiling jaws'?
43. Whose reported last words were: (*a*) 'Light, more light', (*b*) 'I am afraid to go home in the dark'?
44. What is the last book of the Old Testament and the last word in the book?
45. What modern poet suggested that the world would end 'not with a bang but a whimper'?

Heaven and Hell

46. Who said:
    'The mind is its own place and in it self
    Can make a Heav'n of Hell, a Hell of Heav'n'?
47. What watch-dog stood at the entrance to Hades to prevent any of the dead from coming out again?
48. Who said that 'Hell is a city much like London – a populous and smoky city'?
49. What, according to William Blake, puts all Heaven in a rage?
50. Whose idea of Heaven was eating *patés de foie gras* to the sound of trumpets?

Law and Order

51. What general rule of law was laid down in the case of *Rylands v. Fletcher*?
52. For what four offences may the death penalty be prescribed?
53. What do the following terms signify: (*a*) *ignorantia juris haud excusat*, (*b*) *de minimisnon curat lex*, (*c*) *nemo dat quod non habet*?
54. What are the various divisions of the Supreme Court of Judicature?
55. How long does the copyright of a novel, published during the author's lifetime, subsist?

Noughts and Crosses

56. What national event was held on St Crispin's Day this year?
57. What is the meaning of the phrase 'cross and pile'?
58. What is a saltire?
59. Of whom was it said that:
    'On her white breast a sparkling cross she wore
    Which Jews might kiss and infidels adore'?
60. Who described life as 'a tale told by an idiot, full of sound and fury, signifying nothing'?

Poet and Peasant

61. Of what modern poet was it written:
    'A young Apollo, golden-haired,
    Stands dreaming on the verge of strife,
    Magnificently unprepared
    For the long littleness of life'?
62. What poet was born in: (*a*) Moorgate, (*b*) Cornhill, (*c*) Lombard Street?
63. Who wrote the overture 'Poet and Peasant'?
64. When was the Peasant Revolt in this country?
65. Who asked:
    'Yonder peasant, who is he?
    Where and what his dwelling'?

Pomp and Circumstance

66. What Shakespearian character bade farewell to the 'pride, pomp and circumstance of war'?
67. What are the heraldic names for the colours: (*a*) red, (*b*) white, (*c*) blue?
68. Who, said Disraeli, was 'a sophisticated rhetorician, intoxicated with the exuberance of his own verbosity'?
69. What poet, in the fell clutch of circumstance, did not wince nor cry aloud?
70. What is serendipity?

Sixes and Sevens

71. What are the six counties of Northern Ireland?
72. Who were the seven champions of Christendom?
73. What is the term for a six-sided polygon?
74. Who sent his servant out seven times to look for rain?
75. What are the seven deadly sins?

Sporting and Dramatic

76. What are the five classic races of the flat horse-racing season?
77. Where are the following cricket grounds: (*a*) Agar's Plough, (*b*) Fenner's, (*c*) Broad-Halfpenny Down?
78. What modern play ends with the words: 'O God that madest this beautiful earth, when will it be ready to receive thy saints? How long, O Lord, how long'?
79. What play evoked so much protest on its first English performance that William Archer gathered extracts from the notices of his fellow-critics into an article which he offered as a nucleus for a Dictionary of Abuse?
80. Whose death, according to Dr Johnson, eclipsed the gaiety of nations?

Stars and Stripes

81. What is the motto of the United States?
82. When was the Declaration of Independence made and on which day each year is it commemorated?
83. What is the Monroe doctrine?
84. Which three American Presidents were assassinated?
85. Who were President Truman's two predecessors in office?

War and Peace

86. Who, after Corunna, was buried darkly at dead of night?
87. Who said that 'peace hath her victories no less renowned than war'?
88. What famous remark hitherto attributed to the Duke of Wellington was 'disowned' this year and by whom?
89. Who were the contestants in the battles of (*a*) Lepanto, (*b*) Austerlitz, (*c*) Salamis?
90. What, in peace, are the two qualities which best become a man, according to Shakespeare's *Henry V*?

Weights and Measures

91. What is the formula for the area of any quadrilateral figure?
92. State the number of (*a*) bushels in a chaldron, (*b*) quires in a ream, (*c*) poles in a furlong.
93. How many cubic inches are there in a cubic yard?
94. What is a Gunter's chain?
95. What is geodesy?

Words and Music

96. For what special occasion was Verdi's opera *Aïda* written?
97. Who wrote (*a*) the 'Hammerclavier Sonata', (*b*) the 'Wanderer Fantasia', (*c*) the 'Farewell Symphony'?
98. In which operas do the following characters appear: (*a*) Papageno, (*b*) Sparafucile, (*c*) Escamillo?
99. Who wrote the novel on which the opera *La Bohème* is based?
100. Who said that 'our sweetest songs are those which tell of saddest thought'?

WEEKLY NOTES

Another Taxpayer's Victory

An important point has been decided in the High Court in favour of the taxpayer, according to a report in *The Times* of December 14th. It concerned the question of deducting a lump sum of £9,320 which Cravens Railway Carriage and Wagon Co Ltd paid to an insurance company to commute the liability to pay an annual premium of £1,402. The paying company had started a non-contributory staff assurance scheme in 1944, under which employees received an 'endowment' on death or earlier retirement. This was secured by a master policy taken out with the insurance company, all the premiums being paid by the employer. Owing to the age of about twenty of the employees at the scheme's inception, an additional premium of £1,402 per annum had to be paid, and had duly been allowed as a deduction in arriving at profit. The Crown contested the employer's right also to deduct the lump sum of £9,320 which was now paid to commute this premium. The Special Commissioners held that the company paid this sum with three objects, as follows: (1) to get rid of an annual liability which might have been onerous if, in later years, the company were less prosperous; (2) to protect and retain the staff, particularly skilled employees of long standing; and (3) if possible, to obtain the benefit of the deduction of the lump sum against profits while excess profits tax was still payable. They held that the expenditure was not incurred with a view to bringing into existence an asset or advantage of an enduring character and that it was therefore not capital expenditure. Mr Justice Donovan held that the Special Commissioners had not misdirected themselves in point of law. The question was one of fact to which certain familiar principles of law had to be applied and he could not see that they had applied any principle other than the right one. Even if he felt that their decision was wrong, which he did not, he could not interfere. The Crown's appeal was accordingly dismissed.

Foreign Exchange Control Eased

Over the week-end, heralded by a spate of rather wild rumours about imminent freeing of the pound sterling, a measure of decontrol of the foreign exchange market was announced. The degree of change is not great but there are three important consequences which may be read into it.

First, there is the fact of decontrol itself. There is clearly a certain amount of thinking going on officially, which sees in some decontrol, a logical step from some freeing of the structure of interest rates. The trend of thinking is certainly towards greater freedom from monetary controls. Second, there is the fact that the pound is to be very tentatively and in a very limited way allowed to be influenced by market conditions. Thirdly, there is the fact that the foreign exchange market is now open after more than a decade of nominal existence and it now has a chance to flex its muscles against the day when further decontrol may be allowed.

The control remains largely as before. Only authorized transactions may be covered by the banks and the 'spot' price of sterling remains unchanged, except for a slight widening of the margin between buying and selling prices. From now on the banks and not the Bank of England will provide cover for forward transactions. Rates too will now float free, subject to the steadying influence of an officially pegged 'spot' price. The immediate purpose of the change may be to stop speculation in the pound; speculation which has in the last few years on various occasions built up to a large and volatile influence on this country's exchange position. But here as in other sections of the monetary structure controls are being relaxed with circumspection. Every move is tentative and no boats are being burnt by the monetary authorities.

A Dollar Exports Council

The Dollar Exports Advisory Council, which superseded the Dollar Exports Board when it was wound up last summer, has in its turn been replaced by another organization. The new one is similar in constitution though better equipped than the advisory body. It is, in a way, a part return to the Board and is by that token a recognition that the winding up of the Board was a somewhat optimistic, if not hasty, measure.

The new Council is supported by all the national trade and industrial organizations and by the trade unions. Indeed, its membership is largely made up of diplomats from each side of industry with a draft of industrialists who are well known for getting things done. A new feature is that business men in Canada and the United States have been appointed as oversea agents of the Council and provision has been made for the *ad hoc* appearance of higher civil servants from those departments likely to be affected – especially from the Treasury, Board of Trade and Ministry of Supply.

Day-to-day work is being handled by an executive committee and steps are being taken to appoint a whole-time executive. These measures for obtaining the co-operation of business men oversea and of the civil service will be welcomed. So will the decision to set up a full-time secretariat, however small. The dollar export drive is an urgent matter and it cannot be handled satisfactorily by busy men only on the basis of occasional meeting – no matter how able the members of the Council may be.

Financial Surplus for Gas

In the year ended March 31st last, the nationalized gas industry made a surplus of £1,492,784. This was after providing £6,874,661 interest on British Gas Stock and £350,000 for the Central Guarantee Fund. This total surplus was the outcome of nine area boards making surpluses of £2,017,192 and three making losses amounting altogether to £573,166.

One of the interesting features of the industry's accounts is its attitude to provision for depreciation. The average rate of depreciation on the net book value of its assets is 5 per cent. This figure is based on historical cost and several of the area boards are setting aside special reserves to span the apparent gap between historical and replacement costs. These total £625,000. It will be recalled that the area boards have a large measure of autonomy, hence these matters are an area decision.

The Gas Council considers that the higher costs of new equipment could be met only out of higher gas prices or by raising new capital. To take the first alternative would mean consumers paying taxation on the higher prices. The second alternative means raising money at increasing interest rates. The burden of enhanced costs is therefore to be taken up slowly without violent changes in the price of gas. This may be neither a tidy nor very courageous decision but it at least recognizes the inevitability of gradualness. Higher gas prices will be forthcoming in any case. Higher transport charges for coal and an imminent price rise for coal itself will both force prices upwards, no matter how skilfully timed price adjustments may be to meet higher capital charges.

Exports in November

There was a slight improvement in this country's trade position last month. Exports were at record levels – despite the fact that there was a fall in exports to the North American Continent. Exports rose to £254 million compared with £246 million in October. Imports on the other hand fell off from £363 million to £329 million.

Measured in the usual conventional way, the visible trade deficit was thus reduced on the month from £117 million to £75 million. These provisional figures for last month show that there has been a seasonal improvement. But how changed the situation is compared with last year at this time, can be seen from the cumulative deficit. At November 1950 the conventional adverse balance was only £314 million. This year at the same time it was £1,113 million.

FINANCE AND COMMERCE

Restoration of some measure of freedom to foreign exchange operations has been generally well received in the stock market as another step towards more normal conditions. Generally markets are steadier and the gilt-edged tone is less uncertain. Business remains restricted.

Ship Operating Cost

For the statistically minded, we extract from the accounts of the London and Overseas Freighters Ltd the analysis of 'Where the money went'. The company's fleet at March 31st, 1951, consisted of five dry cargo vessels of a total of 52,549 tons dead weight and two tankers of 16,325 tons dead weight each.

Total income is shown as £1,026,133. Out of this, the wages, welfare, pensions, etc., of sea-going personnel took £146,673 or 14·29 per cent, while £46,728 or 4·55 per cent was the cost of their food. The maintenance of vessels cost £73,842 or 7·20 per cent, and repairs to vessels £138,022 or 13·45 per cent. Expenses in ports, including dues and stevedoring, were £79,828 or 7·78 per cent, fuel cost £88,138 or 8·59 per cent, insurance £99,493 or 9·70 per cent, and £101,198 or 9·86 per cent was charged for depreciation. Brokerages and commission totalled £53,256 or 5·19 per cent, and administration and miscellaneous expenses took £42,247 or 4·12 per cent. Of the remainder £91,083 or 8·88 per cent was reinvested in the business and £65,625 or 6·39 per cent was paid out in dividend. These facts are given in segments of a ship's steering wheel. Simple columnar form, we feel, would be better.

In a short favourable comment on the form of the accounts, we place on record the fact that while the company is exempt from disclosing certain information relating to reserves and provisions and certain details of fixed assets and depreciation under the Companies (Shipping Companies Exemption) Order, 1948, the directors have decided that no useful purpose can at present be served by such non-disclosure. The accounts have been prepared accordingly.

MOCCASIN SHOEMAKERS LTD AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at September 30th, 1951

LIABILITIES

£ 1950		£ Authorized	£ Issued and Fully Paid
	Share Capital		
	6 per cent Cumulative Preference Shares of £1 each	115,000	110,706
	Ordinary Shares of 5s each	115,000	112,849
223,555		230,000	223,555
	Capital Reserve		
	Excess of Pre-acquisition Profits and Reserves in Subsidiaries over premiums paid for shares as at September 30th, 1950	106,036	
	Less Adjustment relating to previous years in respect of Eire and United Kingdom Taxation	2,500	
106,036			103,536
	Revenue Reserves		
	As at September 30th, 1950	904	
	Add Transfer from Profit and Loss Account	6,000	
904			6,904
6,052	**Profit and Loss Account**		10,682
336,547			344,677
	Amount attributable to Outside Shareholders of Subsidiary Companies		
	Preference Shares (with Dividend accrued)	26,213	
	Ordinary Shares (with share of Reserves and undistributed Profits)	498	
26,500			26,711
	Future Taxation – United Kingdom Income Tax, 1952–53		
19,575			20,100
	Current Liabilities and Provisions		
48,717	Trade Creditors and accrued Liabilities	43,458	
2,675	Bank Overdraft	6,885	
	Loans: £		
	Directors 35,067		
	Others 1,059		
36,301		36,126	
56,974	Current Taxation	43,031	
	Dividends:		
	Proposed Ordinary 7,406		
2,172	Preference Accrued 872	8,278	
			137,778
£529,461			£529,266

ASSETS

£ 1950		£	£
	Fixed Assets		
	Freehold Land and Buildings at net Book value, June 12th, 1950, plus additions at cost		
55,691		66,925	
	Plant at net Book value, June 12th, 1950, plus additions at cost £42,759		
	Less Depreciation to date 11,700		
29,099		31,059	
			97,984
1,397	**Investments** (not quoted)		2,095
	Current Assets		
334,299	Stocks at Valuation of Directors	319,006	
83,563	Debtors and Payments in advance	99,609	
1,528	Bills Receivable	2,110	
19,450	Cash at Bank and in hand	5,119	
			425,844
	Company Formation Expenses	5,569	
	Less Written off	2,226	
4,434			3,343
£529,461			£529,266

S. J. DAVIS
ROLAND DUNWELL } *Directors*

MOCCASIN SHOEMAKERS LTD AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account, Year ended September 30th, 1951

£	£		£	£
June 12th to September 30th, 1950				
	23,187	Trading Profit	77,656	
		Profit on Sale of Cars	650	
				78,306
		Deduct:		
2,588		Depreciation of Plant	9,112	
191		Loan Interest (gross)	1,806	
340		Audit Fee	901	
	3,119			11,819
	20,068	Net Profit for year subject to Taxation		66,487
		Deduct Taxation thereon:		
2,818		Profits Tax	16,640	
6,078		United Kingdom Income Tax ..	19,795	
788		Eire Taxation	5,000	
	9,684			41,435
	10,384	Net Profit for year after Taxation ..		25,052
		Less:		
2,105		Profit retained in Subsidiaries ..	4,418	
121		Proportion of Profit to Outside Shareholders	1,093	
1,135		Proportion of Formation Expenses written off	1,276	
	3,361			6,787
				18,265
		Add Balance brought forward at September 30th, 1950		3,947
	7,023			22,212
		Deduct:		
		Dividend paid and accrued (*less* Income Tax) on 110,706 6 per cent Cumulative Preference Shares from June 12th, 1950, to September 30th, 1951	4,647	
	2,172	Dividend recommended on 451,396 5s Ordinary Shares at 12½ per cent *less* tax in respect of year to September 30th, 1951	7,406	
				12,053
	4,851			10,159
	904	*Less* Transferred to General Reserve of a Subsidiary		6,000
	3,947	Balance carried forward at September 30th, 1951		4,159
		Subsidiary Companies:		
		Balance brought forward at September 30th, 1950	2,105	
		Add Balance of Net Profit for the year retained	4,418	
	2,105			6,523
	£6,052	Balance carried forward at September 30th, 1951, in Consolidated Balance Sheet		£10,682

Note: The emoluments of the Directors of Moccasin Shoemakers Ltd amounted to £12,975 for the year ended September 30th, 1951, including Fees of £2,100.

Pension Emolument

Mr William Longman, chairman of Longmans, Green & Co Ltd, the publishers, gives a reminder that 'the cost of provision for a director's pension is technically a director's emolument'.

The board, he says, have decided to extend the established policy of provision for future pensions by setting up a pensions scheme for directors and thus meet the liability as it accrues rather than wait until it matures. With provision for pensions, however, technically an emolument, it is now found that total emoluments have been thus raised to a point in excess of the amount authorized. The maximum was fixed at £15,000 two years ago, which still leaves actual salaries within the limit, but is insufficient to cover, in addition, the cost of the new pension scheme.

Shareholders were asked to increase the maximum remuneration to £20,000, which 'would allow a certain latitude in the event of continuance of the inflationary trend'.

Mr Longman, in his review of business conditions, goes into the question of costs, especially the cost of the main raw material, paper. At the beginning of the financial period, he points out, the price of paper was 8⅝*d* per lb. as compared with 3*d* in 1939. By the end of the period, it was 1*s* 5¼*d* and has further gone up to 1*s* 6¼*d*.

Crompton Parkinson

A new generation of accountants has arisen since Crompton Parkinson Ltd, the well-known electrical engineers, headed the revolution in support of the single-column balance sheet back in the 1930s. The company still presents its accounts in this form. Capital, reserves and surplus plus minority interests are shown to be represented by the totals for fixed assets, trade investments, current assets and goodwill. And on the opposite page the detail of fixed assets etc. is given. It is a simple method which combines the short and the long view.

This year further changes have been made in the form. The transfer of certain items to a schedule to the consolidated profit and loss account and of other information to 'Notes on and forming part of the accounts', the chairman explains, has been done to relieve the main accounts of detail and thus give emphasis to the remaining and more important figures.

Moccasin Accounts

The accounts of Moccasin Shoemakers Ltd, which we reprint this week, will interest particularly the several readers who disagreed with the drafting of the company's first accounts issued last year and reproduced in our issue of December 30th, 1950.

Items which caused the auditors to state that last year's profit and loss account did not necessarily give a true and fair view, as well as other shortcomings in the last accounts, have now been rectified.

Money Market

The new foreign exchange market developments are a natural consequence to the greater degree of flexibility infused into the discount market. In so far as the banks will now have to finance their own foreign exchange business the volume of credit in the discount market is further tightened.

Treasury bill applications on December 14th were £234,035,000 and with the market bid at £99 15*s* 1*d*, the allotment basis was 60 per cent. The average rate was 19*s* 6·86*d* per cent and this week's offer is maintained at £170 million. There is no call against Treasury deposit receipts and market opinion is that the authorities do not intend to make further use of such borrowing.

CURRENT LAW

Settlement of Patient's Property

A person of unsound mind was possessed of large free estate and was life-tenant of two settled funds. There was no probability of her ever recovering. It was desired to give effect to a scheme by which she would buy the reversionary interests of her children in one of the settled funds with certain shares in a private company which formed her free estate, to be settled irrevocably on the children. The question was whether there was jurisdiction to permit the scheme.

The Court of Appeal held that there was, under Section 171 of the Law of Property Act, 1925, and that the Court was not precluded by Section 171 (5). *Re Greene* ([1928] Ch. 528) followed. (*Re C.W.M.* (*Law Journal*, September 14th, 1951).)

Advertising Contract: Duration

In *General Publicity Services Ltd v. Best's Brewery Co Ltd* the defendants undertook to circulate or display tariff booklets provided by the plaintiffs free of charge, 'to their best advantage in the course of our business over a period of three years'. After eighteen months they sold their hotel and ceased business and the plaintiffs sued for damages in respect of loss of revenue from advertising. Jones, J., held that they could not recover, but the Court of Appeal held otherwise. Lord Oaksey said that the defendants knew that the plaintiffs were relying on the advertising revenue; the contract could not be construed to mean that the defendants were entitled to close their business and so put a stop to the advertising when they chose. The basis of the contract was that it was intended to continue for three years certain and the plaintiffs were thus entitled to damages. (*Solicitors' Journal*, October 20th, 1951.)

Contract for Personal Services

An actress was engaged to appear in a cabaret at a club for one week. After the first performance she was told that she was unsuitable and that the engagement was terminated. She sought to recover damages for loss of publicity and reputation. The defence argued that they had engaged her as a substitute for another artiste and that they were bound to retain her only if suitable. His Honour Judge Archer, K.C., held that the defendants had broken their contract, which was to employ her for one week. She was therefore entitled to damages. (*McLaren v. The Chalet Club Ltd* (*Law Journal*, October 26th, 1951).)

Liability for Purchase Tax

The plaintiffs in *Cartledge & Son Ltd v. Parker & Son* undertook to do certain work on a vehicle belonging to the defendants, the work being such as not to attract purchase tax. After the work was done, they were asked to do further work which did attract purchase tax. They did so and in due course rendered an account which did not include the tax. The account not being paid, they sued, with the result that the Revenue authorities heard of the matter and claimed the tax from the contractors, which the latter now tried to claim from the defendants.

The Grimsby County Court ruled that they could not do so. Following *Love v. Norman Wright (Builders) Ltd* ([1944] 1 All E.R. 618) the Court held that the contract between the parties carried no implied term that the defendants would reimburse the plaintiffs in respect of the tax and, as Goddard, L.J., said in the above case, 'if a seller offers goods for sale, it is for him to quote a price which includes the tax if he desires to pass it on to the buyer'. (*Law Journal*, October 26th, 1951.)

Stamp Duty: Disposition *inter vivos*

An author settled his copyrights for the benefit of his children, the instrument being chargeable with stamp duty as a voluntary disposition *inter vivos* under Section 74 (1) of the Finance (1909–10) Act, 1910. Adjudication was thus necessary and the Commissioners sought particulars of the royalties, as these were not given in the deed. The trustees tried to compel the Commissioners to adjudicate without the evidence. The Divisional Court held that the Commissioners were entitled under the Stamp Act, 1891, to require such evidence as they might think necessary and, therefore, they could not be compelled to assess the duty unless the evidence was supplied. (*Rex v. C.I.R., ex parte Evill and Another* (*Law Journal*, October 26th, 1951).)

Discharge of Ship: Indemnity

Shipowners entered into a contract with stevedores by which the former indemnified the latter in respect of all claims relating to personal injury by accident to the latter's employees arising out of and in the course of the work of discharging a ship, it being a condition that the latter were to take all reasonable precautions to prevent accident, to comply with all statutory requirements and to have all gear regularly and properly tested and not to use improper or inadequate gear.

Rigging a tripping line a foreman of the stevedores negligently fixed a block and pulley to a lamp-holder which was inadequate to the purpose, with the result that the block and pulley fell and injured a workman. The stevedores compensated the workman and sued on the indemnity.

Devlin, J., held that improper and inadequate gear meant gear used by the stevedores in the course of their business and that the shipowners were not free from liability under their indemnity. (*T. F. Maltby Ltd v. Pelton Steamship Co Ltd* (*Law Times*, November 9th, 1951).)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Estate Duty: Joint Bank Account

SIR, – I have been unable to obtain any authoritative reply to the following questions, and I shall be obliged if any of your readers could enlighten me.

Two persons (not restricted to husband and wife) have a joint bank account from which either of them can draw out *any* amount, and one of them dies. (1) Will the cash remaining at the date of death be liable to estate duty? (2) If so, will the whole amount be liable or any particular proportion? (3) What is the duty of the banker under the circumstance?

Yours faithfully,

London, N1. F. ALAM, B.COM.(LOND.)

Balance Sheets in the Future

SIR, – I have read Mr MacBeath's article (*The Accountant*, December 1st), with considerable interest but I find it difficult to agree with his suggestion to enter fixed assets in the balance sheet at current replacement cost.

The present treatment of fixed assets and depreciation is surely sound enough in theory and straightforward in its practical application. Expenditure on such assets is written off over their effective life, thus leaving the capital intact and again available when replacement becomes necessary. Charging the diminution in value against profits is correct because it has entered into and becomes part of the product.

In times of rising prices, the remedy is to set aside further amounts out of profits in addition to the depreciation charge. The profits may not permit adequate appropriations of this nature, or other factors, such as increased outlay in carrying stocks at inflated values depleting the cash balance, may lead to insufficient funds being available to meet replacement costs. In such cases, more capital must be introduced, by raising loans or otherwise.

Adjusting balance sheet values each year will not remedy this position nor stop it arising, but will only tend to make the document even more difficult for the layman to understand. I stand to be corrected, but I think it would lead to unnecessarily complicated accounting and, as the valuations may be often only a matter of opinion, the publishing of unreliable figures.

Yours faithfully,

Blyth, Notts. T. S. M. GARD.

SIR, – Mr MacBeath's article entitled 'Balance sheets in the future' (issue December 1st) is a timely one, in which he maintains his usual progressive outlook.

I would venture a few criticisms, however, on the new form of balance sheet which he suggests. Mr MacBeath adheres to the orthodox form of presentation of the balance sheet, but by accompanying it with a balance sheet summary he admits, tacitly, that the vertical method of presentation is an improvement. This summary could easily become the authorized balance sheet rendering the orthodox form unnecessary, and thus avoiding confusion for the shareholder who has little or no knowledge of accounting technique. Supporting schedules would suffice to keep the balance sheet clear of detail.

Turning to the balance sheet summary, I wonder whether the average shareholder would readily understand the terms 'net book value of tangible assets', 'book value of equity', and 'nominal assets' (under which heading goodwill is included). I suggest that he would not and that the following draft balance sheet (accompanied by percentages) based upon the summary given by Mr MacBeath would be more helpful:

BALANCE SHEET (OR CAPITAL STATEMENT)

Schedule No.		£	£	*Percentage of Total Capital*
1.	Goodwill, patents and trade marks		20,000	10
2.	Fixed assets		120,000	60
3.	Current assets	140,000		
4.	*Less* Current liabilities	60,000		
	Working capital	£80,000	80,000	40
			220,000	110
5.	*Less* Long-term liabilities		20,000	10
	Total capital or surplus		200,000	100
6.	*Less* Amount set aside for special purposes		30,000	15
	Shareholders' capital and available surplus		170,000	85
	Applicable to preference shareholders:			
7.	Preference share capital		50,000	25
			£120,000	60
	Applicable to ordinary shareholders:			
8.	Ordinary share capital		100,000	50
9.	Profits retained in the business for general purposes	23,000		
10.	*Less* Capital expenses	3,000		
			20,000	10
			£120,000	60

I have provided an alternative title for this statement as the term 'balance sheet' appears, in these days, to be inappropriate, and, apart from legal requirements, could be eliminated. Although the asset 'goodwill, patents, and trade marks' has been treated in the orthodox manner, I would recommend that the asset should be written down if its

real value is clearly less than the book value, and written off if it is valueless.

The criticisms made here do not concern the main conclusions reached by Mr MacBeath in his article and with which, substantially, I agree. I feel, however, that an important purpose of the balance sheet, namely that of presenting information clearly to the shareholder, is not being fully achieved, because the terms used are not sufficiently plain.

Yours faithfully,

A. W. FRYER, A.S.A.A., A.A.C.C.A.

Great Baddow, Essex.

INCOME TAX

WEAR AND TEAR ALLOWANCES FOR MACHINERY OR PLANT

Alterations to List of Percentage Rates

The following alterations and additions are the first which have been made to the list of wear and tear percentage rates published in April 1950. Except where otherwise indicated, the rates shown below are operative as from 1949–50.

(1) *Building brick manufacture and heavy clay industry*

In addition to percentage rates for use under the normal (reducing balance) method, rates for the alternative (straight line) method have been determined for use, if the taxpayer so elects, in connexion with new machinery or plant. The rates are as follows:

	Percentage (*to be multiplied by 5/4ths in computing allowances*) Normal (*reducing balance*) *method*	Alternative (*straight line*) *method*
Steam engines, boilers, shafting and piping	5	2
Conveyors (except claypit), dust extraction plant, lifts and hoists, gas producer and electrical plant	7½	3
Claypit conveyors, mixers and pumps	10	4
Diesel, petrol and gas engines and water softeners	10	4
Transport:		
Conveyor trucks (hand-operated) and trailers	10	4
Tractor and conveyor trucks (petrol, oil and electric) ..	20	9
Presses and making, glazing, de-airing and other process plant:		
(*a*) automatic and semi-automatic	10	4
(*b*) hand-operated	5	2
Sandfacing brick and tile machines	15	6½
Crushing and grinding plant, including screening and milling plant, pulverizers and coal, marl, etc. disintegrators	10	4
Sliphouse machinery (blungers, arks, sifters, pumps and filter presses)	10	4
Clayware dryers (i.e. tunnel and chamber dryers, but excluding open drying buildings and sheds)	10	4
Continuous tunnel kilns (including trucks or cars, tracks, travelling belts, propelling mechanism, fans, electric elements, fuel connexions and mechanical stokers) ..	10	4
Continuous chamber kilns (including fans, electric elements, fuel connexions and mechanical stokers, but excluding chimneys constituting a separate structure)	10	4
Intermittent kilns (excluding hovels and chimneys constituting a separate structure)	10	4
Hovels constituting a separate structure	5	2

Notes.

(*a*) Chimneys constituting a separate structure are regarded as industrial buildings and dealt with under Part I, Income Tax Act, 1945.

(*b*) As regards continuous tunnel and continuous chamber kilns, the cost of rebuilding the firing zone is treated as capital expenditure, but other renewals of parts are treated as revenue expenditure.

	Percentage (*to be multiplied by 5/4ths in computing allowances*) Normal (*reducing balance*) *method*
(2) *Crematoria*	
Machinery or plant generally (including furnaces)..	10% (1)
Books of remembrance	5% (2)
(3) *Flour Milling*	
The 20 per cent increase above normal rates allowed for the period from September 3rd, 1939, to April 5th, 1950, is being continued until further notice.	
(4) *Furniture manufacture*	
Machinery or plant generally ..	10%
(5) *Furniture used in hotels, boarding houses and restaurants*	
Furniture of a permanent and durable nature (excluding soft furnishings)	10% (2)

(6) *Shipping* (*steam trawlers*)

As for tankers (see pages 19–20 of 'List of Percentage Rates')

(1) Operative as from 1946–47.

(2) Operative as from 1951–52.

Inland Revenue,
Somerset House.

December 1951.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

THIRTY-EIGHTH ANNUAL DINNER

The Chartered Accountant Students' Society of London held their thirty-eighth annual dinner at the Connaught Rooms, London, WC, on Wednesday, December 12th, 1951. The President of the Society, Sir Harold G. Howitt, G.B.E., D.S.O., M.C., D.L., J.P. F.C.A., was in the chair, and members and guests, numbering more than 700, were received on arrival by Sir Harold and by Mr Charles W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among those present were the Rt. Hon. Sir Raymond Evershed, Master of the Rolls; Prof. E. D. Adrian, O.M., President of The Royal Society, and Master of Trinity College, Cambridge; the Rt. Rev. the Lord Bishop of Peterborough; and

Mr C. Percy Barrowcliff, F.S.A.A. (*President, Society of Incorporated Accountants and Auditors*); Sir Harold Barton, F.C.A. (*a Vice-President of the Society*); Sir Henry Clay, M.A., M.COM.; Messrs Leslie Cork; Derek du Pré (*Editor, 'The Accountant'*); Sir Edwin Herbert (*Chairman, Articled Clerks Committee of the Council of the Law Society*); Sir Archibald Forbes, C.A. (*President, Federation of British Industries*); Mr George R. Freeman, F.C.A. (*a Vice-President of the Society*).

Messrs H. J. S. French, C.B.E., B.C.L. (*Director, London & Yorkshire Trust Ltd*); M. G. J. Harvey, A.C.A. (*Accountant and Appointments Officer of the Institute*); Sir Hubert Houldsworth, K.C., D.SC. (*Chairman, National Coal Board*); Mr C. I. R. Hutton, C.A. (*President, Association of Scottish Chartered Accountants in London*); Brigadier S. O. Jones, O.B.E., M.C. (*Chief Executive Officer, Sixth International Congress on Accounting*); Rear Admiral P. K. Kekewich, C.B. (*Master, Merchant Taylors' Company*); Rt. Hon. Lord Latham, J.P., F.A.C.C.A. (*President, Association of Certified and Corporate Accountants*); Mr J. B. Leaver (*Chairman, Education Committee of the Council of the Law Society*).

Sir Frank Lee, K.C.B., C.M.G. (*Permanent Secretary, Board of Trade*); Messrs C. H. S. Loveday, A.C.A. (*an Assistant Secretary of the Institute*); F. A. Lucraft (*Clerk to the Special Commissioners of Income Tax*); A. S. MacIver, M.C. (*Secretary of the Institute*); T. R. Maguire (*Member, Council of the Stock Exchange*); F. A. A. Menzler, C.B.E., B.SC., F.I.A. (*President, Institute of Actuaries*); John Myers, F.C.A. (*a Vice-President of the Society*); Lord Reith, P.C., G.C.V.O., G.B.E., C.B., T.D. (*Chairman, Colonial Development Corporation*).

Mr T. B. Robson, M.B.E., M.A., F.C.A. (*Vice-President of the Institute*); Lord Selborne, P.C., C.H. (*Chairman, National Provincial Bank*); Mr F. C. Simon; Sir Frank Tribe, K.C.B., K.B.E. (*Comptroller and Auditor General*); Messrs N. C. Turner, F.I.A. (*Member of the Council, Institute of Actuaries*); L. J. Williams (*Joint General Manager, National Provincial Bank*); Sir Edward Wilshaw, K.C.M.G. (*President, Chartered Institute of Secretaries*); Mr R. Bruce Wycherley, M.C., F.C.I.S. (*Managing Director, Abbey National Building Society*).

Foundations of Professional Knowledge

Proposing the toast of 'The Students' Society', the Bishop of Peterborough said:

'I do want to pay my tribute to your society, and to the large number of young men who, in all sorts of difficult kinds of professions today, are preparing themselves in a highly competitive world for the occupation of their choice.

'I know full well what it means – the long day's work at the office followed up in the evening by many hours of stiff and difficult private study that is absolutely necessary if the foundations of professional knowledge are to be firmly laid.'

Mr B. D. Barton, B.A., A.C.A., Chairman of the Committee of the Society, said in his response to the toast that the Society was now 4,000 strong. (Applause.) It set out to broaden the view of the articled clerk – and to help him rest between examinations, for while there was absolutely no substitute for examinations a man does like to remember that he has other duties. He continued:

'A society is like a joint-stock company in which each member invests something – but his capital must be accumulated in terms of toil and labour before he can expect to receive a dividend.' (Hear, hear.)

In conclusion, Mr Barton told the students that their acceptance of a wider responsibility was more important than ever.

Accounts, and Accountant's in Commerce

The toast of 'The Visitors' was proposed by the Chairman, Sir Harold Howitt, who said in the course of his speech:

'I am sure we are all fully agreed in the profession that the clients we have the most difficulty with are those who started in the profession – they think they know all the tricks of the trade.' (Laughter.)

'I always think that the next time a Companies Act comes up for revision a clause ought to be put in it to the effect that any qualified accountant who leaves the field of accountancy and goes in for commerce should not thereafter be allowed to have anything to do with the accounts.' (Loud laughter.)

An Influence to the Good

Responding, the Rt. Hon. Sir Raymond Evershed, Master of the Rolls, said:

'No business today, whether by accident or design, can possibly conduct its affairs unless at some period during its annual transactions it has the advice and receives the professional services of an accountant' – (applause) – 'and I have no doubt whatever that if you bring to bear in your connexions with those businesses the very highest professional standards of integrity you learn as a chartered accountant – and which you particularly learn in this society – then it will have the greatest possible influence to the good upon the whole community.' (Applause.)

Professor E. D. Adrian, O.M., President of The Royal Society, also responding to the toast, told the students that they had great responsibilities for the future as their profession would always look after the business life of the world.

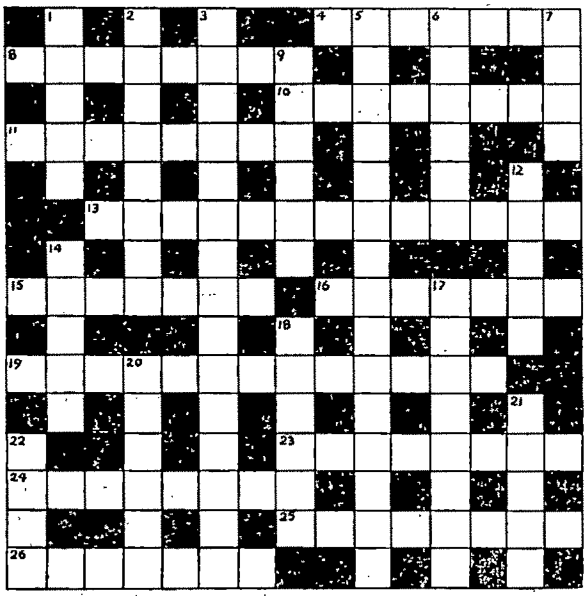
Mr Charles W. Boyce, C.B.E., F.C.A., President of The Institute of Chartered Accountants in England and Wales, proposed a toast to the President of the Society, which was accorded musical honours.

Sir Harold Howitt, who was warmly received, responded.

CROSSWORD FOR CHRISTMAS

by KENNETH TRICKETT, A.S.A.A.

The solution will appear in next week's issue



ACROSS

4. Confused obligation about the whole amount being smudged (7).
8. Renounce, perhaps in accordance with S. 323, C.A. 1948 (8).
10. Rough calculation (8).
11. A short account, odd to make oneself familiar with (8).
13. Strained concern (5, 8).
15. Bun-like liquid (4, 3).
16. *London General . . . Co v. Holloway* (1912) (7).
19. Invoices issued by a Revenue Department? (8, 5).
23. Shutyard (Anagram) (8).
24. Disagreement (8).
25. Evidently this sort of 24 must be important (8).
26. Arbitrator (7).

DOWN

1. Rely on this to conclude a personal letter (5).
2. Hardly the epithet for 10 (8).
3. Sounds a fishy business (6, 9).
5. Here the double meaning is not apparent (6, 9).
6. Value of this is not aggregable (6).
7. Legal document (4).
9, 18. There's certainly some point in this (6, 6).
12. Children (5).
14. Book-keeper (5).
17. Such consideration cannot support an enforceable contract (8).
18. See 9 (6).
20. Notice (6).
21. Article placed in a vehicle as a measure of purity (5).
22. And this is in Hampshire (4).

NOTES AND NOTICES

Personal

Messrs Robson, Morrow & Co announce that Mr Ian T. Morrow has resigned from the partnership as from December 1st, 1951, and that Mr F. C. de Paula became a partner at that date.

Messrs Gollop, Kandler & White, Chartered Accountants, of 10 Coleman Street, London, EC2, announce that as from December 21st, 1951, they have removed their offices to 101 Hatton Garden, Holborn, London, EC1. Telephones: Chancery 5157–8–9.

Messrs W. A. Browne & Co and Messrs Fairbairn, Wingfield & Wykes, Chartered Accountants, announce that as from December 1st, 1951, their respective practices are being carried on in close association, for the time being from their present addresses in the City of London. Mr E. H. Wingfield, F.C.A., and Mr V. D. Wykes, A.C.A., have become partners in the former firm and Mr F. R. Leeds, A.C.A., and Mr J. V. F. Crowther, A.C.A., have become partners in the latter firm.

Messrs Blackburns, Robson, Coates & Co, Chartered Accountants, of London, Bradford, Leeds and Manchester, announce that Mr J. F. W. Compton, R.D., A.C.A., has retired from the firm on accepting an appointment as director and financial manager of Nahums Holdings Ltd, 14 Cumberland Street, Manchester, and that Mr R. A. Douglas, B.COMM., A.C.A., A.S.A.A., who has been with the firm for a number of years, has been admitted to the partnership as the resident partner at their Manchester office.

Professional Notes

Mr Bertram Nelson, F.S.A.A., Vice-President of the Society of Incorporated Accountants and Auditors, and partner in the firm of Lithgow, Nelson & Co, Incorporated Accountants, of Liverpool, has been elected a member of the Mersey Docks and Harbour Board.

Colonel Thomas C. Squance, O.B.E., T.D., B.A., F.C.A., formerly vice-chairman of the Newcastle Regional Hospital Board, has been appointed chairman of the Board.

E. K. Cole Ltd announce the appointment of Mr John Corbishley, A.C.A., as a director. Mr Corbishley has been associated with E. K. Cole Ltd since 1932. He became assistant accountant in 1941 and was appointed director and secretary of Ekco-Ensign Electric Ltd in 1947.

Mr S. J. Pears, F.C.A., has joined the board of directors of the British Bank of Iran and the Middle East.

Saunders-Roe Ltd announce that Mr P. D. Irons, B.COM., A.C.A., F.C.W.A., who has been secretary of the company for seven years, has been elected to the board of directors. Mr Irons originally joined Saunders-Roe in 1938 to take over responsibility for their financial departments, and has since become a director of the two subsidiaries: Saro Laminated Wood Products Ltd and Saunders-Roe (Anglesey) Ltd.

Mr A. B. C. Denman, A.C.A., has been appointed managing director of Coleman & Co Ltd, of Norwich, as from January 1st, 1952, and continues as secretary.

Obituary

HENRY FOSBROOKE HOLLOWAY, F.C.A.

We have learned with regret of the sudden death, at the age of 71, of Mr Henry Fosbrooke Holloway, F.C.A., partner for 40 years in the firm of Derbyshire & Co, Chartered Accountants, of Bentinck Buildings, Wheeler Gate, Nottingham, and of London.

Mr Holloway joined the firm in 1895 as an office boy. He was articled to the late Mr J. N. Derbyshire in 1901, and in 1907 was admitted an Associate of the Institute; he was elected a Fellow in 1917. A past president of the Nottingham Society of Chartered Accountants, he was also, from 1942–50, a member of the Council of the Institute.

A prominent Freemason, Mr Holloway held high rank in a number of degrees in the Province of Nottingham. He was, too, a member of the Chartered Accountants' Lodge.

HARRY MONTAGU MANN, A.C.A.

We have learned with regret of the recent death, at the age of 64, of Mr Harry Montagu Mann, A.C.A.

Articled with Messrs Dixon, Wilson, Tubbs & Co, now Dixon, Wilson, Tubbs & Gillett, in 1904, Mr Mann was admitted an Associate of the Institute in 1911. Shortly afterwards he travelled to China and joined the staff of the Shanghai Municipal Council. He spent many years in China and at one time was president of the Association of Chartered Accountants in China, and also commodore of the Shanghai Yacht Club.

Mr Mann was repatriated to this country in 1943. On his return he worked as a director of Wheelock, Marden & Co, the firm which he had joined in the Far East not long before the Second World War.

At the time of his death Mr Mann was chairman and managing director of Whites Shipyard (Southampton) Ltd, a subsidiary of Wheelock, Marden & Co.

Christmas Bonuses

LIABILITY TO TAX

The Board of Inland Revenue has issued the following reminder to employers:

Christmas bonuses paid to employees are liable to income-tax whether payment is made in cash or in something such as savings certificates which can be turned into cash.

A special concession has, however, been made in recent years as regards cases in which an employer who had been in the habit of making Christmas presents in goods to subordinate employees decided to substitute gifts of equivalent value in the form of savings certificates, savings stamps, national savings gift tokens or direct credits to savings banks accounts of the employees.

In such cases, the value of these substituted gifts has not been treated for income-tax purposes as income of the recipients.

Ministry Appointments

The following appointments have recently been announced:

Mr C. E. Maher, to be Accountant-General at the Ministry of Labour and National Service, in succession to Mr T. W. F. Dalton, C.B.E., who retires on December 28th.

Mr H. C. Coleman to be Accountant-General at the Ministry of Pensions, in succession to Mr W. C. Letts, who retired on December 14th.

Double Taxation: Finland

A double taxation convention between the United Kingdom and Finland was signed in London on December 12th.

Subject to ratification, the convention provides for avoidance of double taxation on income and profits and is expressed to take effect in the United Kingdom from April 6th, 1951. In general it is similar to those already made with the United States of America, certain Commonwealth countries, France, the Netherlands, Sweden, Denmark and Norway.

Death Duties

THE DEATH DUTIES (REVOCATION OF RELIEF AGAINST DOUBLE DUTY) (PAKISTAN) ORDER, 1951

The explanatory note to this Order,[1] made on December 4th, 1951, reads as follows:

The Order revokes the Order in Council dated February 2nd, 1895, in so far as that Order applied the provisions of Section 20 of the Finance Act, 1894, to Great Britain and Pakistan.

Section 20 of the Finance Act, 1894, provides by way of Order in Council for relief from double death duties in the case of property situate in any 'British possession' which does not levy duty on property situated in the United Kingdom or in which a reciprocal allowance is made. The section provides for revocation of an Order in Council made under its terms where it appears that the law of the 'British possession' has been so altered that it would not allow of the making of an Order.

The reason for the revocation to which reference is made in the first paragraph of this note is that the present death duty law of Pakistan charges duty in certain circumstances on property in Great Britain, but does not provide any allowance in Pakistan in respect of duty paid in Great Britain on that property.

[1] S.I. 1951 No. 2129. H.M.S.O. 2*d* net.

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London and District Society of Chartered Accountants

Mr Noel Hall, M.A., Principal of the Administrative Staff College, will address members on 'Training for management' at a Society meeting on Tuesday, January 8th. The lecture will be at 6 p.m. in the Hall of the Chartered Insurance Institute, Aldermanbury, EC2.

The Finance Act, 1951

DEFINITION OF WHOLE-TIME SERVICE DIRECTORS

In our third article on the Finance Act, 1951, on page 215 of our issue of September 8th, 1951, we should have referred to whole-time service directors as being whole-time directors who do *not* control more than 5 per cent of the ordinary share capital; the word 'not' was inadvertently omitted.

First *Taxation* Conference

The proceedings at the first taxation conference, organized by our contemporary *Taxation* and held at Eastbourne from October 26th–28th, were reported in our issue of November 3rd, and are now published in book form by Taxation Publishing Co Ltd, 98 Park Street, London, W1, at 3*s* post free.

Recent Publications

THE INSTITUTE OF ACTUARIES' YEAR BOOK, 1951–52. xv+328 pp. 8½×5½. 3*s* net. Cambridge University Press, Cambridge.

AN EXAMINATION OF THE METHODS OF KEEPING RATEPAYERS' ACCOUNTS IN ENGLAND AND WALES by a research group composed of E. L. Jones, F.I.M.T.A., K. Nicholson, A.I.M.T.A., A.C.I.S., D.P.A., F. Lambert, A.I.M.T.A., C. M. Spenceley, A.I.M.T.A., D. B. Starke, A.I.M.T.A., A.S.A.A., and C. A. Stebbing, A.I.M.T.A., F.S.S. xii+108 pp. 8½×5½. 20*s* net. Institute of Municipal Treasurers and Accountants (Incorporated), London.

LANCASHIRE COUNTY FINANCE, 1950–51. 28 pp. 8½ × 5½. County Hall, Preston.

BUCKINGHAMSHIRE COUNTY COUNCIL ACCOUNTS for the Year ended March 31st, 1951. 175 pp. 9½ × 6. County Offices, Aylesbury.

LOGIC BEHIND THE CHARGE OF INCOME TAX, a paper read at the Bombay Region Chartered Accountants' Conference, October 1951, by R. K. Dalal, B.COM., F.S.A.A., F.C.A. 55 pp. 9½ × 6½.

PROCEEDINGS at the Thirty-second International Cost Conference, Chicago, 1951. vi + 170 pp. 9 × 6. National Association of Cost Accountants, New York.

THE A.B.C. OF INCOME TAX RETURN MAKING, by S. C. H. Smith, late H.M. Senior Inspector of Taxes. 307 pp. 8 × 5. Limp cloth cover. 8*s* post free. Advertiser Press Ltd, Huddersfield.

INCOME TAXES IN THE COMMONWEALTH, Vol. I. iv + 426 pp. 8½ × 5½. Limp cloth cover. 18*s* net, by post 18*s* 9*d*. His Majesty's Stationery Office, London.

SKINNER'S PROPERTY SHARE ANNUAL, 1951. xiv + 315 pp. 10 × 7. 30*s* net. Thomas Skinner & Co (Publishers) Ltd, London.

THE HEALTH SERVICES, Some of their Practical Problems. 136 pp. 8½ × 5½. 10*s* 6*d* net. Published for the Institute of Public Administration by George Allen & Unwin Ltd, London.

BUSINESS ACCOUNTS. Third Edition, by L. A. Terry, B.COM.(HONS.) and W. T. Smith, M.COM. viii + 375 pp. 8½ × 5½. 12*s* 6*d* net. Sir Isaac Pitman & Sons Ltd, London.

THE STUDENT'S MACHINE ACCOUNTING TUTOR, by O. Sutton, M.S.M.A., A.C.I.S. xiv + 154 pp. 8½ × 5½. 12*s* 6*d* net. MacDonald & Evans Ltd, London.

CASE LORE, by Ernest Evan Spicer, F.C.A. xvi + 294 pp. 9 × 5½. 21*s* net. H.F.L. (Publishers) Ltd, London, and Reinhardt & Evans Ltd, London.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 23RD, 1876

Extract from 'Notes in Passing'

The Sun-light

During one of the recent proverbial dark days before Christmas, the Bankruptcy Court became so gloomy that the counsel were unable to read their briefs. Then occurred a colloquy that reminds one of the 'Circumlocution Office' which Dickens so happily satirized. It appears that someone 'appealed to the learned judge to use his influence to procure a sun-light to be placed in the roof.' Then the learned judge replied that 'he should be most happy to do so; and directed the sitting Registrar, Mr Spring-Rice, to bring the matter before Mr Hazlitt, the senior Registrar, in order that the defect, which his lordship said was very detrimental to the public service, should be remedied.' So far, so good; but is it not possible that the senior registrar will follow the example thus set him, and direct a junior registrar to request his chief clerk to ask one of his subordinates to prevail upon the usher to command somebody else to go, buy a sun-light and hire a glazier? And during all this delay will not the 'public service' be reduced to desperation or despair?

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THE PROFESSION IN 1951

THE progress of the accountancy profession down the years has been steady rather than spectacular, and the events of 1951 have been in keeping with that measured rate of advancement. Perhaps the nearest approach to a radical change – constitutionally, at any rate – has been the amalgamation of the three Scottish societies of chartered accountants, but the fusion has been so designed that the new body – The Institute of Chartered Accountants of Scotland – has not only preserved the past traditions but has also laid a secure foundation for future achievements. MR ROBERT GORDON SIMPSON, M.C., C.A., of Edinburgh, is the first President of the Scottish Institute, and MR E. H. V. MCDOUGALL, solicitor, has been appointed Secretary.

Despite the complex financial and economic structure of present-day society, the professional bodies have continued to interpret the principles of accounting and to apply them with a consistently high standard of judgment and integrity.

The Institute of Chartered Accountants in England and Wales held its fifth summer course at Christ Church, Oxford, and its twenty-second autumnal meeting at Torquay. The Society of Incorporated Accountants and Auditors returned for its course this year to Gonville and Caius College, Cambridge, where the first of the series was held in 1934, and its annual conference took place in Dublin. The Association of Certified and Corporate Accountants selected Buxton as the setting for its annual conference. Among the many other professional conferences held in 1951 was one organized by our contemporary, *Taxation*, at Eastbourne, in October, when about 700 guests attended to hear lectures by eminent speakers on various aspects of tax law and practice and to take part in the subsequent discussions.

Among the important official publications of the year was a long statement by the Council of The Institute of Chartered Accountants in England and Wales containing its views, so far as they would affect the accountancy profession, on the Carr-Saunders Committee's report on education for commerce. The committee's proposals, the Council concluded, were wholly inappropriate for persons wishing to become members of the Institute and, if put into effect, would undermine the Institute's whole system of training under articles. It has since been announced by the President of the Institute that in consequence of a meeting with senior officials of the Ministry of Education, it is now clearly understood that the Minister would not consider any move which might affect the interests of the Institute, without full prior discussion with the Council.

Three other publications during the year by the Council of the English Institute, which occasioned much interest, dealt respectively with the suitable presentation of statistics in company reports, the accounting implications of the Town and Country Planning Act, 1947, and the allocation of overhead expenses. Also, this year, the joint exploratory committee appointed in 1945 by The Institute of Chartered Accountants in England and Wales and the National Institute of Economic and Social Research, to define the more important terms commonly used by accountants and economists, and to examine the major accounting concepts, published its report. Because of differences in the objectives of the two groups – the accountant's efforts are directed primarily to serving the companies and individuals who are his clients, whereas the economist works in a more impersonal and comprehensive field which may embrace a complete industry or even the whole community – the members of the committee were unable to reach agreement, but many misunderstandings were removed and this should be of value in future discussions.

Two important announcements were made during the year concerning the status and interests of the accountant in industry. The first was the intimation in September by the Institute of Cost and Works Accountants that its members were considering a scheme to establish the Fellowship grade of their Institute as a qualification in management accountancy. The Council of that Institute considers that as the training and background of its members already go a long way towards providing an overall qualification in management accounting, the proposal is no more than a logical extension of its existing activities. The other announcement, made at the December meeting of the Council of The Institute of Chartered Accountants in England and Wales and dealt with in a leading article in this journal two weeks ago, was that a sub-committee of the General Purposes Committee is to be set up to advise the Council on matters relating to the interests of non-practising members of the Institute. Any practical step towards a better understanding of the ways in which the accountancy profession can be of help in industry is to be welcomed, for, as SIR ARCHIBALD FORBES, C.A., said in a stirring address at the annual dinner in October of the Association of Scottish Chartered Accountants in London,

> 'It seems to me that your profession is closer than any other to the industrial and commercial world. And that being so, you have an admirable opportunity – no one better – to assess and pronounce upon the various problems which perplex the business world, and any such pronouncement by you people would be accepted as a balanced one, because it would be based not only on experience but on complete independence.'

MR CHARLES WILLIAM BOYCE, C.B.E., F.C.A., was elected President of The Institute of Chartered Accountants in England and Wales in June, and MR CHARLES PERCIVAL BARROWCLIFF, F.S.A.A., became President of the Society of Incorporated Accountants and Auditors in the same month. It is gratifying to note that the Society's hall which was seriously damaged in 1944 has been restored.

Five accountants were elected to Parliament at the General Election in October as compared with six at the election held in 1950. Two of these have received junior Ministerial appointments, COMMANDER T. D. GALBRAITH, R.N.(RETD.), M.P., C.A., as Joint Parliamentary Under-secretary of State for Scotland, and MR A. E. MARPLES, M.P., A.S.A.A., as Parliamentary Secretary to the Ministry of Housing and Local Government. From the House of Lords, THE LORD DE L'ISLE AND DUDLEY, V.C., M.A., A.C.A., has joined the Government as Secretary of State for Air.

The problems which face the profession in the year ahead are crystallized in the five subjects chosen for discussion at the Sixth International Congress on Accounting to be held in London next June. These are (1) fluctuating price levels in relation to accounts; (2) accounting requirements for issues of capital; (3) the accountant in industry; (4) the accountant in practice and in public service; and (5) the incidence of taxation. In bulk they constitute a formidable challenge which, we feel confident, will be nobly met by the present guardians of the profession when they assemble for their deliberations under the presidency of SIR HAROLD HOWITT, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A. There is nothing more stimulating than the interchange of ideas, and if the events of the past year are any indication, then the profession in this country, which has a mental vigour and vigilance keener now perhaps than at any previous period in its history, should make a notable contribution to the international counsels.

FLOATING A PRIVATE COMPANY

by B. G. ROSE, A.C.A.

An outline of the considerations arising and steps to be taken when applying for quotation of a company's shares on a recognized Stock Exchange.

THE object of this article is to examine some of the considerations which will arise when a business hitherto carried on as a private limited company seeks a quotation on the Stock Exchange for part or the whole of its share capital. It is assumed that the business is of the requisite size to justify such a step, and that its profit record and financial position are good enough to make likely the success of such an operation.

Much will depend on whether it is intended to make an issue of shares to the public, i.e. look for new money, or merely to obtain a quotation for share capital which is already issued. In either case it will be necessary to secure specialist advice from an issuing house or a firm of brokers as to the terms on which the shares can be offered to the public, and the same issuing house or firm of brokers will usually arrange for any necessary underwriting and superintend the operation generally.

This article deals with the case where only shares already in issue are to be quoted, and there is no new money to be found.

Reorganizing the Share Capital

The first step will be to look at the share capital, which in the case of many private companies bears no relation to the net assets, and does not cater for the needs of the investing public. Often there is a class of preference shares which was issued years ago for special reasons, to which rights are attached that are unrealistic by today's standards. The ordinary shares may be few in number but of high denomination, or there may be deferred shares with exceptional voting and dividend rights.

In these and similar cases the share capital will have to be reorganized. Small issues of preference or deferred shares with special rights will need to be converted into ordinary shares. If the existing members wish to retain all the ordinary shares and to place on the market preference shares only, a new class of such preference shares may need to be created by conversion of part of the ordinary shares, with such rights as to dividend, redemption and repayment of capital in a winding-up, as will enable such shares to be placed at or above par, in the market conditions of the time. Ordinary shares of high denomination will, if they are to be quoted, need to be subdivided. If the ordinary capital is small in amount, or if there exists a large preference capital in issue, the ordinary capital itself may need to be enlarged by a bonus issue out of free reserves.

Procedure

There is usually little difficulty about these steps, except the last-mentioned. The cancellation of special rights attaching to preference or deferred shares normally needs the consent of a separate class meeting, and a special resolution of the company. The creation of a new class of preference shares will need a special resolution of the company. The rights attaching to these shares are usually defined in the special resolution; mostly such shares are cumulative as to dividend; they confer voting power only in the event of the dividend being in arrear; they may be repayable at some premium in a winding-up but do not normally participate further in profits or assets; and they may be redeemable. The subdivision of existing ordinary shares is a simple matter. None of the steps so far discussed needs the consent of any one other than the company or some class of its members. But where a bonus issue is contemplated, consent of the Treasury is needed, if the amount thereof, together with previous issues of share or loan capital within the preceding twelve months, exceeds £50,000.

Articles, Service Agreements and Taxation Position

The articles of association will probably need alterations or additions in order to comply with the rules of the Stock Exchange. The directors may have been free to draw such salaries as they or the controlling shareholders thought fit. In order to protect the public and secure continuity of management, the directors are normally asked to enter into service agreements for a term of years at a definite remuneration. If the company is one which has been or continues to be subject to the sur-tax legislation of Section 21, Finance Act, 1922, and to estate duty under Section 46, Finance Act, 1940, the existing shareholders may have to indemnify the company against these contingent, and often remote, liabilities. In this connexion a clearance for sur-tax from the Special Commissioners under Section 18, Finance

Act, 1928, up to the date of the last accounts will be useful.

Legal and Stock Exchange Requirements

Frequently, the placing of the shares itself does not require Treasury consent, but it may do so, if within the previous two years any share or loan capital has been issued without specific Treasury consent, e.g. a bonus issue of under £50,000. In that case Treasury consent is needed for any public offer for sale (S.R. & O. 1947, No. 946). Similarly, a prospectus within the terms of the Fourth Schedule to the Companies Act, 1948, is not normally required, but a statement in lieu thereof will have to be filed with the Registrar of Companies, together with certain documents. The company must also publish an advertisement, which complies with the rules of the Stock Exchange, and which must contain information similar to that contained in a prospectus under the Companies Act. In some respects, the Stock Exchange requirements are more stringent, e.g. the Companies Act requires the auditor's report to deal with five years' profits and losses whereas the Stock Exchange prescribes a minimum of ten years. The relevant rules are contained in Appendix 34 to the Rules of the London Stock Exchange; the provincial Stock Exchanges have substantially similar requirements.

The advertisement is usually drafted by the company's solicitors, but the auditor is responsible for drafting his report on the profits and losses of the past ten or more years, and on the net assets of the company at the date of the last accounts. The report must contain a statement of the directors' emoluments in the latest financial year, and what those emoluments would have amounted to under the arrangements in force at the date of the report. A statement is normally required as to the comparison between depreciation written off in the accounts and capital allowances granted for tax purposes over the same period.

Past Profits and Losses

The auditor must supply the Stock Exchange with a statement of the adjustments he has made in arriving at the profits and losses shown in his report. This statement should be in the prescribed form, and begins with the increase or decrease in profit and loss account balance, shows the transfers to and from reserves, all items which would have had to be shown in the profit and loss account if the Companies Act, 1948, had been in force throughout the period, and any special adjustments made for 'prospectus purposes', together with the reasons therefor. The resulting net total is the profit or loss figure shown in the report, and while the procedure is essentially simple, difficult questions have to be solved sometimes, e.g. in deciding how deferred repairs are to be spread over the period, or into which years certain provisions for losses, say, on Government contracts, properly fall, or whether any profits are exceptional and ought to be excluded.

So long as the minimum ten-year period covers some war years, this sort of question is bound to arise in many cases. The report must also contain information as to the amount of excess profits tax, national defence contribution, and profits tax paid in respect of each financial year, although this information is often meaningless. Where the company has subsidiaries, group figures are required.

Special Points

The above is a general outline of the procedure, but some points merit special consideration. For example, the existing shareholders may be willing to dispose of some of the ordinary shares but may wish to retain sufficient to give them control. So long as the Stock Exchange Committee are satisfied that the shares to be offered to the public are sufficient to constitute a market, there is no difficulty about this. The directors will have to make up their minds and indicate in the advertised statement what dividend they propose to recommend in future on the reorganized ordinary share capital, and this will be a major factor in assessing the price at which the shares can be offered. Normally the proposed dividend should be rather more than twice covered by the anticipated earnings, if the investment standing of the shares is to be a good one.

If the company is one which deals in a well-known product, or has a famous name or numerous local connexions, the demand for the shares from the public is likely to be higher than it would otherwise be, and the placing price can consequently be somewhat higher. The brokers or issuing house who are handling the placing will want to know a good deal about the management, and its continuity; this may not figure to any extent in the advertised statement, but it will certainly affect the placing price. Finally, difficulties in obtaining the necessary Treasury consent to reorganizing the existing share capital by bonus issues can often be got over by incorporating a new company with the required capitalization, to which the existing undertaking will be transferred, or which will hold the share capital of the existing company, but the taxation repercussions of any such reconstruction will need to be watched.

QUARTER OF A CENTURY

REMINISCENCES OF A CHARTERED ACCOUNTANT

by HERBERT A. ADAMS, A.C.A.

THIS is the time of the year when accountants look back over the past year to view what has taken place before certifying that the balance sheets they will shortly sign represent a 'true and fair view'.

In these reminiscences I am going back further than one year – in fact, I am taking a quick look over the past twenty-five years to see what has been happening to our profession. What view can we take of ourselves and what sort of a certificate will the general public give us for our efforts over the last quarter of a century?

Articled Clerks

I begin with my first contact with the profession. The first day of my articles was spent in learning the gentle art of 'ticking' and adding up long columns of figures in a client's day book. A few days later I excelled myself by upsetting a bottle of violet ink over a ledger. Unfortunately, it was no ordinary ledger, for it was none other than that belonging to a Masonic lodge, an institution to which the senior partner, with whom I was working, was deeply devoted. I expected a torrent of language from my bearded boss and to be banned for ever from entering the profession. Imagine my surprise when he expressed more concern for my suit than for the ledger and, far from being annoyed with me, he was most sympathetic. That incident taught me two attributes of the profession, patience and tolerance, without which any articled clerk is severely handicapped if he wishes to make headway.

In my view, the lot of the articled clerk has improved considerably over the past twenty-five years, but there is still room for further improvement. In my day the articled clerk had very little time off for his examinations and was, therefore, obliged to give up most of his evenings to study after a hard day's work at the office. I am a great believer in work, not only as a means of earning a livelihood, but also as a means of providing satisfaction for the soul. In my time some of us had too much work, especially those of us who were engaged on audits away from home. Then, as now, the articled clerk was sometimes used as a source of cheap labour, instead of one who had, in those days at any rate, paid to be taught the rudiments of the profession.

Principals are busy men, but if they are too busy to devote some time to training articled clerks, or to arrange for someone else in the office to do so, they should not take on articled clerks. I still remember returning to the office on some Saturday afternoons to study clients' income-tax files, instead of enjoying a round of golf.

Taxation on Saturday Afternoons

I contend that every clerk who has passed his Intermediate examination should have the opportunity, in office hours, of getting some practical experience of taxation. Personally, I do not regret that self-imposed task, for I learnt a lot about taxation from a perusal of those files. Those Saturday afternoons put life into a subject which had previously been looked upon as 'dry bones'. It gave the subject a human interest, and what qualified accountant has not later found how human – or rather inhuman – a subject it is!

The articled clerk of today has a much wider choice when he has passed his Final, than had his predecessor. He can either elect to stay in the profession as a practising accountant, or enter the portals of industry, where the number of posts awaiting him are many and varied. Furthermore, his advancement is far more rapid in these days. However, he still has to pass his examinations and perhaps it may not be out of place to offer a few words of comfort to those articled clerks who feel, as I did, that a lot of knowledge acquired for examination purposes will not be used in later life. This is just not true, for over the years I have been amazed how often I have made use of such knowledge. Furthermore, it is a great asset to know where to find certain information when one needs it in a hurry.

So much for chartered accountants in embryo, now for the profession itself.

Years of Advancement

The last twenty-five years might well be called the years of advancement. In the late 1920s the general public knew little about chartered accountants apart from one or two prominent members, such as Sir William Plender and Sir Gilbert Garnsey; the rest were regarded as gentlemen who worked wonders with figures and periodically shut themselves away and 'hatched out' a balance sheet.

How different is the position today when we find accountants directing industry, sitting on Royal Commissions, and advising large sections of the community on taxation matters. How has this rapid change come about? It has been brought about by a process of evolution. The vast growth in industrial organization, the expansion of the affairs of State and the keen competition of the modern world, demanded men of financial skill, integrity, and sound business training. Fortunately for the profession it had, during that time, members who had the courage, conviction and the skill to break new ground.

The profession will ever be indebted to those members who, not content to sit in cosy offices commenting on past history, entered the industrial field to put their theories into practice. It is to such men that we owe the development in machine accounting, standard costing, budgetary control and management accounting, and here I should like to record that management accounting is not a new science which has recently been imported from the U.S.A. – although recent pronouncements would have us believe so – it was very much in the mind of that eminent accountant Mr F. R. M. de Paula, O.B.E., F.C.A., and others, away back in 1927. I have yet to read a clearer and more precise exposition of 'Accounts as an aid to management', than that given by him in a lecture under that title, delivered to the Office Users' Association, on November 9th, 1927.

Office Machinery

Looking round the office machinery in an industrial office today, one is rather apt to feel that such machines have been in use for very many years and the days when bank clerks used to write out the pass-book in a somewhat laborious manner, belong to the dim and distant past. Many readers may therefore be surprised to read the following extract from the leading article of *The Accountant* dated January 5th, 1929:

> 'During the year the steady development of commercial methods has continued and has been illustrated by one or two remarkable examples. The Midland Bank has committed itself to a very considerable and important step in inaugurating the change-over from hand-posting to machine-posting including the abolition of the old-fashioned pass-books.'

In the same year we also find that the mechanization of the ledger-keeping of the Post Office Savings Bank was completed.

Scientific developments in microscopic photography have now made it possible for a business executive to examine reproductions of important documents, with the minimum of effort, although the originals may be filed many miles away from his office.

Taxation

A review of the past twenty-five years would be incomplete without some reference to taxation, for the increase in the rate of taxation and the intricacies of the various Finance Acts have been a contributory factor in the growth of the profession. Readers may be somewhat amused at the following extract from *The Accountant* of January 5th, 1929:

> 'It now seems clear to us, however, that a standard rate of 4*s* in the £ is a fixture for the next generation and longer. Whatever may be thought about the crushing burden of a 20 per cent drain on industry, it must be admitted that there are advantages in steadying the standard rate.'

How gladly would we have entered into a contract to stabilize at 4*s* in the £!

Membership

The growth of the profession over the last quarter of a century has been astonishing. In this short period the number of members of the Institute has more than doubled as shown by the following figures:

NUMBER OF EACH CLASS OF MEMBERS

	1927		1951	
England and Wales				
Fellows in practice ..	1,508		3,344	
Fellows not in practice	115		388	
Associates in practice	2,079		2,884	
Associates not in practice	2,760	6,462	7,825	14,441
Not in England or Wales	1927		1951	
Fellows	20		185	
Associates	760	780	1,453	1,638
		7,242		16,079

The significant feature of these figures is the remarkable increase in the number of associates not in practice in England and Wales. These have increased from 2,760, as quoted in the year book of 1927, to the current figure of 7,825, whereas there has only been a small increase in the number of associates in practice.

It has been said that this world was created for accountants. If that is so, we have been a long time discovering it, for it is only during the last quarter of a century that the profession has reached its rightful place in society. The growth of the profession is not surprising when one

considers the various duties performed by an accountant in the modern world. These duties were very neatly summed up by Sir William Plender, as he then was, in an address given at our jubilee meeting:

> 'Today, a chartered accountant's experience is not limited to the auditing of accounts, nor is his practice confined to that class of work only, but he is able, from the knowledge he obtains in dealing with undertakings which come under his observation, to advise boards of directors, individual manufacturers, merchants and others, on financial and business questions generally, on administration and costing, and he assists largely in amalgamations and in the adjustments of capital arising on reorganization of businesses. No company issues a prospectus containing a statement of profits without a public accountant reporting on them and on not a few company prospectuses which are now issued, the name of a chartered accountant as a member of the board will be found. The liquidation of companies, the office of receiver and manager, and that of trustee in bankruptcy or under deeds of assignment, is as a rule in the hands of a qualified public accountant. They also act as arbitrators or umpires in cases where profits and the value of shares are to be determined.'

Accountants as Directors

Now that so many accountants are firmly seated on the boards of public companies, it is hard to believe that just over twenty years ago there were very few accountants on the boards of public companies and that the growing practice of appointing accountants to the boards of directors was arousing a certain amount of criticism from various quarters. The main line of criticism came from those people who maintained that whilst the ideals of accountancy embodied caution and prudence, the industrial depression, through which the country was then passing, needed men of daring and those willing to take a chance on the future.

Looking back to those years, we now see how these men who were willing to take a chance, succeeded in dissipating the assets of their shareholders. In fact, the present practice of appointing accountants to boards of directors may have arisen through shareholders' dissatisfaction with those directors who, without the necessary business acumen and training, were prepared to take bold decisions without being aware of the effect of their deliberations.

The introduction of accountants to the board room has now met with general approval and so well has this arrangement worked out, that we now find many accountants as chairmen of boards of directors.

The Future

What can one say of the future, except to note that it is moulded out of the past? Naturally, I claim no knowledge of what will take place in the future, I merely have ideas on future trends and some views on what should take place.

In recent years our minds have been very much exercised with the almost machine-like rate at which legislation has reached the statute book. The number of Acts with which we have had to familiarize ourselves in the last twenty-five years is astounding. Year by year our responsibilities are increasing and we must be ever mindful of the high esteem in which we are held by the general public. From time to time Acts are passed, such as the Companies Acts 1929 and 1948, which not only extend our responsibilities but more clearly define our duties. From time to time cases are decided in the Courts which are of supreme importance to the profession. Our watchword for the future, therefore, might well be 'vigilance', for we know not when circumstances will again arise, as those in 1932 which resulted in the following appearing in a leading article in *The Accountant*:

> 'Coming to more domestic matters, it is not too much to say that the year has also been one of crisis in the accountancy world, and the profession, too, has problems to face, which within their limits, are of the utmost importance. In the minds of accountants the *Royal Mail Steam Packet* case has overshadowed all other matters of professional interest, and at no time has public opinion been more prominently directed to the duties and responsibilities of accountants and the relationship of auditors to shareholders and directors.'

Recently, of course, our minds have been exercised with the Companies Act, 1948, but now we have thrashed out its various implications, we are able to turn our minds to other subjects.

As I look into the future, I feel that the training of articled clerks will again come up for discussion. We shall probably see those articled clerks who intend to enter industry, spending some part of their articles with chartered accountants engaged in industry. In so doing they will acquire valuable experience to equip them for their future responsibilities.

In the future we shall also probably have a larger proportion of industrial accountants on the Council.

In the Year 2002

In the year 2002, the accountant will probably look back to the present office machinery in use and regard it as archaic. *The Accountant* will also be publishing letters indicating that the battles

ranging over LIFO and FIFO are by no means over. I dare not predict that income-tax, as such, will be abolished in the future, for fear of being ostracized by the profession for suggesting the elimination of a most lucrative source of income.

In fifty years' time, however, agitation will probably be taking place in certain quarters for the replacement of income-tax, profits tax and sur-tax, by one inclusive tax known by some such name as an 'output tax', the assessment of which will be far more simplified than at the present time. Perhaps the statisticians would care to work out how much it is costing the nation in man-hours to collect the existing taxes? Time spent by civil servants, accountants and taxpayers in filling up forms, and in presenting figures, must be staggering.

Over the next fifty years it is also likely that the present method of declaring dividends as a percentage of the issued capital will be superseded by a declaration on the capital invested. There will also be a greater interchange of ideas between accountants in this country and those overseas, with a resultant benefit to all concerned.

In the future the profession will also benefit by a greater influx of university graduates. In the past the accountant has been so tied up by his day-to-day activities that he has had little time available for research.

No profession can live on its past, and we look to the younger generation to keep up the high standard which our predecessors have set. There are still partially unexplored subjects, be they in the realms of management accountancy or in the unexplored regions which lie between the world of economics and that of accountancy.

We can look forward to the future with confidence, knowing that our services will be required in many spheres of life. It will not be long, however, before our minds will be very much concerned over the severe competition which is coming to our industrial markets from Japan and Germany. Let us, therefore, be ready to play our part.

NORTH AMERICAN COMMENTARY—XXX

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
Professor of Accounting, McGill University, Montreal

Journal of Accountancy, New York, October

Profits in Disfavour

REFERRING to observations of *The Economist* and *The Accountant* on labour's hostility to profits, the editorial urges accountants to face the challenge since 'the measurement of profit is their business'. In another connexion the editorial announces that the Business Income Study Group of the American Institute of Accountants is, after four years of study, about to make a final report. Some forty persons have been engaged on the report, including economists, lawyers, business executives and certified public accountants. It is considered that this will be

> 'the first serious effort to analyse the conflicting concepts of business income in the light of historical developments and to point the way to a rational reconciliation of these views.'

Codification of Statements on Auditing Procedure

The American Institute's Committee on Auditing Procedure has now codified the twenty-four statements published since 1939 and is distributing them at the price of $1·00. It is pointed out that the section on inventories and receivables is of particular importance as having set new standards, and it is true that these are considerably more stringent than accepted practice in Britain demands. The new booklet is hailed as a useful tool for every practising certified public accountant.

Accurate Sales Forecasts by Index

Mr J. P. Compton, Assistant Treasurer, American Asphalt Roof Corporation, Kansas City, emphasizes the modern role of the accountant as forecaster, not historian, of business. He quotes his company's practice of going back ten years and determining what percentage of total yearly sales is represented by sales of each month and quarter. While monthly figures have been found to fluctuate quite widely there is comparatively little variation in the quarterly ones. Thus if the ten-year average for the first quarter is 15 per cent of the year's total it can reasonably be expected that the current year's sales will not vary by more than 2 per cent either way from the

forecast on that basis. The vital thing is that the reason for any variation shall be known not to be an error of judgment, or incompetence, or to be due to organizational weakness.

New York Certified Public Accountant, New York, October

Simplifying Financial Statements in Prospectuses

Mr Edward T. McCormick, a commissioner of the Securities and Exchange Commission, is reported to have said a year ago at the annual meeting of the American Institute, that the presentation of financial facts in prospectuses has lagged far behind the non-financial section. He stated that the classical forms of balance sheet and income statement, still required for disclosure in prospectuses, were unintelligible to the lay investor. As a footnote to these remarks, Mr Louis H. Rappaport, C.P.A., reports that, early this year the Commission circulated for comment proposals, among other things, that the prospectus contain a summary of earnings together with a statement of financial position. All conventional balance sheets, income and surplus statements would be filed with the Commission but not included in the prospectus. No actual revision has yet been made along these lines.

The Canadian Chartered Accountant, Toronto, October

Employment Shortage in the Accounting Profession

Recruitment of accounting personnel is, says the editorial, perhaps the most serious problem facing the profession in Canada today. This subject was raised again and again at the annual meeting of the Canadian Institute of Chartered Accountants, at Banff, last summer. The accounting profession has enjoyed the advantages of Canada's ever-growing economic activity, but a chronic employment shortage has developed and 'there is no prospect of its disappearance in the foreseeable future'.

Organization in the Professional Accountant's Office

In an excellent and exhaustive discussion, Mr Paul Bruneau, L.SC. COM., C.A., reviews the problems of professional accounting firms in Canada. He tells how, where the size of the organization permits, a research department may centralize a number of technical problems, and ensure the maintenance of uniform policies and procedures. It will keep the accounting staff in touch with the latest publications, preparing a library catalogue for their use and extracting the more important information from the tax services to which the firm subscribes. In the larger firms it will prepare a staff manual and from time to time convene office conferences for discussion.

The Thirteen-period Accounting Year

In an article of extraordinary interest, reprinted from the March 1951 Bulletin of the National Association of Cost Accountants, Mr Lawrence P. Jennings of the Office Methods and Procedures Division, Caterpillar Tractor Co, discusses the advantages of obtaining properly comparable accounting periods by dividing the year up into 13 periods of 4 weeks or 28 days. Variations can thus be traced directly to operating causes without considering calendar irregularities.

But he points out certain disadvantages, such as the fact that legal holidays will still upset a number of periods and that the additional closing caused by the thirteenth period may be a serious matter. He therefore tells of another solution found by his company, which has a plant-wide vacation shut-down of two weeks. It takes as its unit a 21 work-day accounting month based on a five-day week. In an ordinary year, deducting Saturdays, Sundays and six legal holidays, there are 255 work-days allocable over twelve working months, making 21¼ work-days for each working month. The odd quarter day each month is relegated to the vacation month by the expedient of marking off on the calendar periods of 21 working days from January 2nd to the end of the last complete 21 work-day period before the shut-down in August. Similarly, periods of 21 working days are marked off, counting back from the last work-day in December to the first complete 21 work-day period after the shut-down in August.

The days between the end of the period before the shut-down and the commencement of that after the shut-down constitute the accounting month of August. Since the accounting and calendar months coincide, to a great degree, the 21 work-day accounting month is used for *all* accounting records, including the financial statements prepared for outside agencies. As the periods are the conventional twelve there are no extra costs of additional closings and fixed charges need no reallocation. Only one period is out of line, so that the aim of obtaining absolute comparability is eleven-twelfths achieved.

THE KING'S PEACE

by SIR THEOBALD MATHEW, Director of Public Prosecutions

I WOULD like to say a few words about the administration of justice in this country, and I make no apology because in these days, when ideologies and systems of government very different from our own are competing for acceptance, it is vitally important that we should have in mind those principles which have established so clear and solid a tradition in this country.

Principles

What, then, are these principles? The first and most important is that from the earliest times in our history it has been considered to be the right and the duty of each individual citizen not only himself to preserve the King's peace, but also to bring malefactors to justice and to take his share in its daily administration. This basic idea, as we shall see, has survived to this day and has been instinctively cherished as part of our heritage by each succeeding generation.

The importance of the principle cannot be overstressed because it has been and still remains the fundamental difference between our conception of government and that of continental Europe.

Side by side with the evolution of the tribal system of law enforcement in this country to meet the expanding needs of the community, there was growing up in Europe another system whereby obedience to the law was secured not by placing the responsibility for maintaining law and order upon the people or their chosen representatives, but by direct enforcement by the executive government, whatever its form, through the medium of paid officers specially employed for that purpose. Under this system the rulers – either because they were or became tyrannical and cruel or because they had not the goodwill and assistance of their subjects – were compelled almost inevitably to arm these officers of the law with oppressive powers and to create a more or less servile judiciary.

Political and Secret Police

The culmination of this evolution can be seen in the political and secret police of the dictatorships and of the totalitarian states of modern times. If any further evidence were needed, we have the testimony of one of the most experienced of modern authorities on this subject, Field-Marshal Goering, who, in his evidence before the Nuremberg Tribunal on March 13th, 1946, said:

'For the consolidation of power, the first prerequisite was to create along new lines that instrument which at all times and in all nations is always the inner political instrument of power, namely, the police.'

While we in this country may console ourselves with the thought that history shows that the governments that have adopted this system of law enforcement have failed in the end, generally as a result of internal or external war, nevertheless the world has not yet learned the lesson – and indeed it is a difficult one – that it is the basic principle that is wrong, and not merely, as is commonly argued, that the method of its application by the particular ruler who has failed was the cause of that failure.

Few governments can start without the support of at least a substantial minority of the population, and, so long as the ruler remains popular and beneficent, the people will obey his commands without the necessity for a rigorous police system. It is when, for whatever reason, the velvet glove is removed and the iron hand is disclosed, operating through a ruthless police force, that the pursuit of happiness, liberty and even life, far from being inalienable rights, become but empty words to the people of the countries concerned.

Development of Law Enforcement

Now let us examine briefly the history of the development of law enforcement in this country. In Saxon times, the country was divided into ever-increasing units, from tithings to hundreds, and then to larger communities, each of which was responsible to the King for the maintenance of law and order in its own district. If the community failed to preserve the peace and to bring felons to justice, it was fined.

When William I came to this country he conquered it with a relatively small force and, on discovering that this would be inadequate to establish the Continental method of law enforcement, he adopted and developed the system already in existence.

As early as the reign of Henry II (1154–1189), the King sent out his emissaries to see that the various local communities were enforcing the law and bringing criminals to justice, and by the reign of Edward III (1327–1377) the practice of sending the King's Judges on assize as Commissioners for Gaol Delivery and Oyer and Terminer was firmly established and has continued to this day.

At about the same time, the Statute 1 Edw. III provided that in every community 'good men and lawful', who were afterwards to be known as Justices of the Peace, should be assigned to keep the peace.

As centuries passed, the character of trial by jury changed from being an investigation by men selected because of their knowledge of the facts and of local conditions to the consideration by an independent tribunal of evidence placed before them, and Justices of the Peace developed from being investigators and

An address delivered at the President's Meeting of the Chartered Accountant Students' Society of London held in Guildhall, London, on October 4th, 1951, with the President of the Society, Sir Harold G. Howitt, G.B.E., D.S.O., M.C., D.L., J.P., F.C.A., in the chair. The meeting was briefly reported in *The Accountant* dated October 13th, 1951, at page 346.

quasi-prosecutors into judges or committing magistrates, exercising only judicial functions in the strict sense. But they remained and still remain private citizens, beholden to nobody but their fellow citizens, doing their duty unpaid on behalf of the community.

The effect of this change was that there was for a century or more prior to 1829 no organized body to prevent or investigate crime, or to prosecute offenders.

Parish Constables and Watchmen

The responsibility for the prevention of crime devolved upon the parish constable in the country, and on the watchman in the cities and boroughs. This service was unpaid and it was in theory the duty of every citizen to take his turn in one or other capacity.

In the country this meant that the service was quite inadequately performed. Dalton, writing in the reign of James I, observes that constables

> 'are often absent from their houses, being for the most part husbandmen, and do most of the day in the fields'.

In the towns the situation was even worse. The timorous citizen with little authority and no training was naturally reluctant to undertake the task of watchman, and was very willing to pay others to take over his tour of duty. Accordingly, watchmen were either

> 'aged in general; often feeble; and almost on every occasion half starved . . .',

or they were persons who had undertaken the task of watchmen as a cover for their criminal activities.

The result was, particularly in the larger towns, that gangs of criminals, unmolested, indeed, frequently acting as watchmen, produced a situation of unchecked lawlessness that is almost incredible.

The only weapon in the hands of the central government with which to enforce law and order was the armed forces of the Crown, whose use was necessarily confined to dealing with serious outbreaks of mass disorder.

The Gordon Riots

The situation throughout the country became progressively worse and culminated in the Gordon Riots of 1778, when, to quote the Annual Register for that year,

> 'for six days successively the cities of London and Westminster were delivered up into the hands of an armed and nameless mob to be plundered and burned at its discretion. These tumults', the Register continues, 'threatened the very existence of the Metropolis.'

Amongst other outrages, Bow Street was sacked and Newgate Gaol, then an immensely strong building, was completely destroyed and the prisoners set free. These riots were eventually quelled by the intervention of the Army.

In the meantime, the Government, stirred by private fear and public agitation, were forced to take notice of the situation. This notice took a very familiar form. Between 1770 and 1829 no fewer than seven parliamentary committees investigated the problem, but so strong was the public feeling against any form of police force that, for over fifty years, nothing was done to deal with the situation.

Report of a Parliamentary Committee

One of the reports ends with the following revealing paragraph:

> 'This is a subject of great difficulty. It is no doubt true that to prevent crime is better than to punish it; but the difficulty is not in the end but the means; and though your committee could imagine a system of police, that might arrive at the object sought for, yet, in a free country, or even in one where any unrestrained intercourse of society is admitted, such a system would of necessity be odious and repulsive, and one which no government could be able to carry into execution. In despotic countries it has never yet succeeded to the extent aimed at by those theorists; and among a free people the very proposal would be rejected with abhorrence; it would be a plan which would make every servant of every house a spy on the actions of his master, and all classes of society spies on each other. The police of a free country is to be found in internal and humane laws – in an effective and enlightened magistracy – and in the judicious and proper selection of those officers of justice, in whose hands as conservators of the peace, executive duties are legally placed.'

At this time the almost complete impotence – indeed absence – of law enforcement machinery in England was rightly regarded as a serious menace to the very existence of the state itself. Nevertheless, the alternative of a state police system, the only other method then in existence, was so dreaded that most of the people sincerely believed that the conditions, amounting almost to anarchy, under which they were living, were preferable.

But, as has happened so often in our history, a compromise was gradually worked out that established, over the next twenty-five years, an efficient police system throughout the country, while still retaining the vital tradition of individual and local responsibility for the maintenance of law and order.

Establishment of a Police Force

In 1829 the Metropolitan Police Act was passed for the purpose of having a police force for London, and in that year for the first time the top hats and blue cloaks appeared in the streets. You might have thought, after what had gone before, that the new police would have been welcomed, but you would be wrong. They were greeted with a storm of ridicule, abuse and personal violence. But even in this atmosphere the first two Commissioners of Police succeeded in getting their men to turn the other cheek, and to use no more force than was reasonably necessary to achieve the immediate purpose. In the result they proved their worth by quickly ending the period of crime and disorder that had lasted for over a century. They achieved this, not by the use of force or any special powers, but by securing the respect and, later, the help of their fellow citizens. As a result, by

1835 other towns were required by the Municipal Corporations Act of that year to establish police forces and county authorities were given powers for this purpose in 1839; finally, in 1856, by the County and Borough Police Act of that year, their establishment by all county authorities was made compulsory.

The same basic principle is to be observed in the case of prosecutions. To this day, with very few exceptions, all prosecutions are private prosecutions, and the police and the Director of Public Prosecutions still prosecute as private citizens. Moreover, in the Prosecution of Offences Acts, 1879 and 1908, which established the department of the Director of Public Prosecutions, the right of the private citizen to prosecute is expressly preserved. The director has, generally speaking, no special powers, privileges or immunities and is liable, like any other prosecutor, to actions for malicious prosecution or false imprisonment, and to have costs awarded against him.

Costs of the Prosecution

Again, the principle of tribal or local responsibility for the administration of law and order extends even to the question of the payment of the costs of prosecution.

Until the end of the eighteenth century the private citizen had not only to prosecute but also to pay all the costs of the prosecution; Fielding, in his *Essay on the Causes of the Increase of Robberies in the Eighteenth Century*, writes of this situation:

> 'This I have known to be so absolutely the case that the poor wretch who hath been bound to prosecute was under more concern than the prisoner himself. It is true the necessary cost on these occasions is extremely small: two shillings, which are appointed by Act of Parliament for drawing the indictment, being, I think, the whole which the law requires, but when the expense of attendance, generally with several witnesses, sometimes during several days together, and often at a great distance from the prosecutor's home . . . are summed up, and the loss of time added to the account, the whole amounts to an expense which a very poor person already plundered by the thief must look on with such horror that he must be a miracle of public spirit if he prosecutes.'

The 'Tyburn Ticket'

The first attempt to remedy this evil was to provide rewards for successful prosecutions. An Act was passed in 1699 which provided that the successful prosecutor of certain serious felonies should be entitled to a certificate, significantly known as a 'Tyburn Ticket', which was transferable once and excused the holder from certain public duties such as constable and juror. It also carried the right to a seat at the execution of the felon. This was a valuable document and changed hands for £25 to £40. Indeed, it is recorded that as late as 1818 a Tyburn Ticket changed hands in Manchester for £218. Having regard to the comparative values of money, one could fairly say that that ticket was worth four figures.

But this was not found to be a satisfactory solution, and in 1778 there was passed the first of a series of Acts of Parliament dealing with this matter, which resulted in the position that the court of trial could allow costs to prosecutors in all cases of felony and the more common misdemeanours. The matter is now regulated by the Costs in Criminal Cases Act, 1908. These costs are paid by the local authority of the place in which the crime was committed, and this applies even in cases in which the prosecution is undertaken by the Director of Public Prosecutions.

Practical Lessons

What are the practical lessons to be drawn from this brief and inadequate historical review? First, I hope that I have convinced you that the maintenance of what we proudly call 'the King's Peace' is your task as citizens, and is a task which is vital to our liberties and in which you should be proud to play your part. Therefore take every opportunity that comes – and no doubt it will come to many of you – actively to assist in the administration of justice. If you are summoned as a juror or a witness, do not regard it as being a nuisance, but give of your best. If you get the opportunity to become a Justice of the Peace, take it, for he plays a vital part in the administration of justice. Indeed, 97 per cent of all crime in this country is dealt with by Justices of the Peace.

Secondly, be very critical of any proposals that tend to remove or even to weaken the sense of responsibility of every citizen actively to assist in the day-to-day administration of justice. Be reluctant to give special powers or privileges in this regard to any person, whether the police or myself or anybody else.

In any organization there are, no doubt, improvements that can be made, but when considering a suggestion to this end one should have in mind the principles upon which the organization must depend. Efficiency and economy alone are not adequate reasons for making changes that may disturb the foundations upon which our system has been built.

Preservation of Individual Liberty

Finally, I would say this. Our lay magistrates and juries ensure that the lawyer – and the chartered accountant – when dealing with the criminal law, have to explain the mysteries of their craft to a bench or jury of their fellow citizens. This is very salutary because, in the last resort, it prevents any profession from becoming an esoteric cult practised and understood by a few experts who, therefore, have the last word.

The study of the history of the enforcement of the criminal law in this country teaches us that we have secured and preserved our individual liberty by evolving a system whereby that liberty depends not upon an executive, however benevolent, nor upon a judiciary, however wise, but upon the active support and final judgment of our fellow citizens.

WEEKLY NOTES

Revenue Departments' Accounts

The appropriation accounts of the sums granted to the revenue departments for the year ended March 31st, 1951, have now been published, together with the report of Sir Frank Tribe, the Comptroller and Auditor-General[1]. The departments concerned are the Customs and Excise, Inland Revenue, and Post Office, which cost £10 million, £25 million, and £173 million respectively.

Customs produced £905 million, mainly from tobacco, and Excise produced £724 million. Inland Revenue duties all exceeded the corresponding estimates with the exception of death duties and profits tax; £2,038 million were collected. During the year back duty investigations increased sharply. Under-deductions of P.A.Y.E. tax, prior to 1948–49, have been reviewed and individual items below £15 are being written off together with larger sums where there is little hope of recovery.

The Inland Revenue expenditure was some £238,000 less than estimate, mainly due to savings on superannuation and death duties. Losses by fraud, default and accident were well above estimate.

We hope to deal with the accounts and the report in more detail in a leading article next week.

Death Duties and the N.U.M.

The National Union of Manufacturers has appealed to the Chancellor of the Exchequer to appoint an impartial Committee to hold a public inquiry into the whole effect of death duties on industry, and particularly in respect of small- and medium-sized private manufacturing businesses.

The appeal is embodied in a memorandum submitted to the Chancellor and published recently. The memorandum discounts the findings of a White Paper issued last July following an Inland Revenue investigation, in that only the fringe of the problem was touched upon and only instances where death had occurred were dealt with. The Union points out that no reference was then made to the serious economic situations which often arise as a result of anticipatory measures, which many proprietors feel themselves forced to take, to mitigate the effects of excessive death duties. It suggests that relief should be given in the next Budget by modifying the rates of duty.

F.B.I. on Dividends

As at this time last year, the Federation of British Industries has issued a statement to its members calling upon them to exercise 'moderation and restraint' in dividend policy. The letter itself has little new to say. It points out the large degree of co-operation which industry has already given in this matter and underlines the effect which higher dividends must have on the other side of industry in a time of rising prices. It also calls for cuts in government expenditure as a potent gesture in the campaign against inflation.

The fact that the F.B.I. has deemed it necessary to make a pronouncement to members may well be more significant than its contents. It certainly emphasizes the fact that a change of Government does not mean a relaxation of restraint, although it may mean a diminution of controls. Government policy has changed significantly in that monetary influences are now in process of being harnessed to fight inflation. But few other changes have yet been brought in. The F.B.I. letter signifies that all responsible-minded people are agreed that every device available, used without reference to mere economic dogma, must be mobilized to fight the twin problems of inflation and an unfavourable balance of payments position.

Productivity Report on Coal

The report of the team representing the British coal-mining industry which visited the United States this year under the auspices of the Anglo-American Council on Productivity was published last week. The team had time to visit only twelve of the nine thousand mines of commercial size in the United States but it formed the firm impression that the effectiveness of the best American mine management is due mainly to (*a*) the belief common to both management and men that their respective ends will be served only by increased productivity at lower cost; and the clear recognition by both groups of their respective roles; (*b*) the general acceptance that modern mining is too complicated for one person to grasp in its entirety and that it calls for specialists and team work; (*c*) an orderliness of approach to the main problems of management; (*d*) the use of budgets and standards; (*e*) the daily check on performance and costs; (*f*) the recognition of the personal qualities required for management; and (*g*) the identification of the foreman level with management and, in particular, the build-up of the section foreman as the keystone of the supervisory system.

The team recommends to the British coal-mining industry the systematic training of management; the need to recruit specialists to assist line management; the need to remember that the success of mechanization depends as much on good supervision as on mechanical ingenuity; the extension of present experiments in the continuous analysis of operations and in the use of budgets, standards, daily cost statements, etc.; the fostering of loyalty and pride of employment; and, above all, the desirability of inspiring and aiding colliery management to initiate experiments and innovations.

[1] H.M.S.O. 1s 3*d*.

REVIEWS

The New Issue Market and the Finance of Industry
by R. F. Henderson, Fellow of Corpus Christi College, Cambridge

(Bowes & Bowes, Cambridge. 25s net)

This analytical study of the new issue markets in London and the provinces, and of other media for the finance of industry is timely, for the position is constantly changing and no comprehensive survey on a comparable scale has been made for some years.

Mr Henderson, in assembling his information, has consulted many publications and individuals so that his conclusions are soundly based on activities over the whole relevant field of investment. He is of the opinion that because of careful preliminary 'vetting' of new projects by the trained staffs of reputable issuing houses, the success of small concerns launched on the market is now less a matter of good luck and investment – in consequence, less of a gamble. Mr Henderson considers that although this development is welcome, the element of risk is still essential to progress and deplores the shortage of free risk capital caused by high taxation, stringent controls, changes in the distribution of income and the preference of the public for liquidity and security.

The canalization of saving into large balances of undistributed profit and government surpluses, threatens the whole industrial structure whose life-blood is a steady flow of funds into the capital market for the finance of risky projects. Changes in taxation, Mr Henderson suggests, might do something to restore a healthy circulation, but the main hope for the immediate future is that financial institutions will continue, and indeed extend, their activities in supplying risk capital for enterprises with genuine possibilities.

The Stock Exchange Official Year-book, 1951
Volume II
Editor-in-Chief, Sir Hewitt Skinner, Bt.

(Thomas Skinner & Co (Publishers) Ltd, London. Complete edition of two volumes, £6 net)

In 1949 it was decided, for general convenience, to split this well-known and valuable standard work of reference into two volumes. The first volume, with sections, among others, on Government securities, railways, banks, breweries, insurance, and iron and steel, was published earlier in the year and was reviewed in these columns on July 7th. In the 2,179 pages of this second volume, the important 'Commercial, Industrial, etc.' section is dealt with, as well as those devoted to financial trusts, land and property, investment trusts and mines. The number of new companies brought into the second volume this year exceeds 100, of which ninety-five appear in the commercial and industrial section.

A most important new feature is the introduction of a combined index to both volumes; the folios of the two books being distinguished by heavy and light type.

Register of Defunct and Other Companies
Companion to the
Stock Exchange Official Year-book, 1951

(Thomas Skinner & Co (Publishers) Ltd, London, £1 net)

This record of 'defunct' securities increases in size each year, and is a valuable time-saver for all engaged in dealing with deceased estates.

The nationalization of the gas industry affects over 600 gas undertakings whose securities have been, or are being, exchanged for British Gas Stock in amounts which are here duly recorded.

A Digest of the Law of Agency
by William Bowstead
Eleventh Edition
by Peter Allsop, M.A., Barrister-at-Law

(Sweet & Maxwell Ltd, London. 50s net)

The law of agency, important though it is, particularly to the professions, has tended to be neglected by text-book writers. Any new book on the subject would be welcome, but here we are fortunate to have a new edition of the acknowledged leading book on the subject, carefully revised and brought up to date. Although it is meant primarily for the legal practitioner, it will be of considerable use to accountants.

The Corporation Income Tax
by Richard Goode, of the Department of Economics, Chicago University

(John Wiley & Sons Inc, New York. $3·00 net.; Chapman & Hall Ltd, London. 24s net.)

The corporation income-tax dealt with in this book is, of course, the American one, but it is none the less interesting to readers on this side of the Atlantic. Professor Goode is an economist who has given searching thought to the question of the place of the corporation in present-day society, to the theory of taxing it, and to the economic and social repercussions of such a tax. In particular, he has some significant things to say about the valuation of stock for tax purposes in times of rapidly rising prices which is of considerable topical interest. This is a book well worth having.

SHORTER NOTICE

MODERN MANAGEMENT FOR BAKERS AND CONFECTIONERS, Book II, Flour Confectionery, by E. Victor Amsdon, F.C.W.A., and H. E. Turner. (Trade Technical Services Ltd, London. 10s 6d net.) The joint authors of this interesting manual have mixed their ingredients with skill to produce a text-book of just the right consistency for all who aspire to bakery management.

FINANCE AND COMMERCE

tock markets have closed a most eventful year by e-emphasizing, in renewed gilt-edged reaction, the ear's most potent change – the return to dearer noney. The immediate outlook for the market must lepend upon whether the Government proves strong nough to carry the monetary policy further and apply t, or its equivalent, to the public as well as the private ector of the economy.

Too Wide

Ve hesitate to damp a beginner's ardour but we annot agree fully with Mr H. H. Burton in his tatement presented with the first accounts of Aetalastik Ltd to be presented to the public, which ve reprint this week.

Mr Burton says 'the accounts are presented in a nodern and simplified form which is now becoming nore extensively used'. By 'form' he probably means he single-column statement which produces a total et-assets figure for reconciliation with capital, eserves and surplus. In which case he is undoubtedly orrect. This style of accounts is becoming more opular.

But looking at the statement as a whole we should ay it is getting away from the modern tendency to roduce a concise and compact view. In the original : is seventeen inches across and that is far too much or the eye to keep under control at one time. It is not ufficient indeed that one should set down the facts nd figures; it is necessary also to set them down in uch a way that they can easily be picked up. In the Aetalastik accounts the narrative and comparative gures are a foot apart.

The point may be illustrated from the pages of *he Accountant* which are set up in double column. t makes far easier reading than one solid page of rint. It is for the same reason that the daily newsaper is made up in seven or eight columns. May we hen suggest that financial statements should not be llowed to run too wide?

For those who feel they should know something bout the business, Metalastik bonds rubber to metal, or engine mountings, etc., and the report gives a st of the company's special products and their pplication.

Osborn Centenary

It is on record that Samuel Osborn rejected the pportunity of a substantial order from an overseas narket because only second-class wares were reuired.' Samuel Osborn & Co Ltd now celebrates he centenary of the business with a special descripive pictorial publication. But nothing it contains is o impressive as this striving for the best even at the xpense of business.

Osborn, as a young man in his middle twenties, ought steel and, with his few workers doing a o-hour week for 20*s* (income-tax 7*d*), made hand-cut les. First year turnover was £763 17*s* 7½*d*. In 1871, in his middle forties, he developed, in association with R. F. Mushet, the first self-hardening toolsteel and first tungsten tool-steel produced. By the closing years of the century, Osborn's, it is estimated, held half the world's self-hardening toolsteel trade.

The centenary is marked by the appointing of Mr I. G. Buchan, C.A., previously in general practice, as chief accountant. His first accounts, now presented, embody certain alterations in form. The main point, however, is the direction of shareholders' attention to the fact that, despite substantial increase in profits earned, the trading position and the cash position must be considered in the light of two specially important factors – raw material prices and fixed asset replacement costs.

The whole of the year's increase in manufacturing profit has in fact been taken out of the profit context and put into special provisions. 'Towards meeting the increased cost of replacing fixed assets' £236,000 has been applied and against 'Possible losses on fall in raw material prices' there is a provision of £320,000.

These, with other specific provisions (pensions, deferred repairs, U.K. income-tax 1952–53), make a special group – 'Amounts set aside for specific purposes' – in the balance sheet after share capital and reserves, current liabilities being shown as a deduction, *per contra*, from current assets.

METALASTIK LIMITED
Profit and Loss Account for the year ended August 31st, 1951

	1951 £	1951 £	1950 £	1950 £
Trading Profit		79,046		65,294
after deducting:				
Depreciation	3,563		5,173	
Patent and Trade Mark Applications ..	1,888		834	
Directors' Salaries and Commission ..	5,195		5,010	
Directors' Fees	650		150	
Auditors' Remuneration	231		196	
Costs of Capital Reorganization ..	814		—	
Add Other Income and Credits:				
Dividends and Interest Received (gross)	650		339	
Interest on Tax Reserve Certificates	219		—	
Profits on Sale of Fixed Assets ..	94		347	
Transfer Fees	4	967	—	686
Total Profit before Charging Taxation		80,015		65,980
Deduct Taxation:				
Profits Tax	14,500		11,000	
Income Tax on Royalty and Dividends Receivable, etc.	447		451	
Income Tax on the Profits of the year	24,500		27,000	
Taxation Equalization Account ..	6,500	45,947	—	38,451
Net Profit for the year after Taxation		34,068		27,529
Add Balance brought forward from previous year		4,635		15,694
		38,703		43,223
Deduct Transfer to General Reserve		20,000		28,000
		18,703		15,223
Proposed Dividend				
Dividend on Ordinary Share Capital at 27½ per cent less Tax (Net)		10,106		10,588
Balance carried forward to next year		£8,597		£4,635

Note: The Taxation Equalization Account of £6,500 is equivalent to the Taxation benefit on Initial Allowances claimable this year for Taxation purposes, but not written off as Depreciation in the accounts of the company.

METALASTIK LIMITED

Balance Sheet, August 31st, 1951

	1951 Cost	1951 Depreciation written off	1951	1950 Cost	1950 Depreciation written off	1950
	£	£	£	£	£	£
Fixed Assets						
Freehold Property	2,965	74	2,891	2,965		2,965
Plant, Machinery, Fixtures, Fittings, Motor Cars, Vans and Research Equipment	54,378	14,617	39,761	20,352	11,210	9,142
Patents and Trade Marks (written down to Nominal Value)	17,000	16,900	100	15,112	15,012	100
(*Note:* Commitments for Capital Expenditure amounted to approximately £21,000).	£74,343	£31,591	42,752	£38,429	£26,222	12,207
Current Assets						
Stock-in-Trade as valued by the Directors		47,995			23,922	
Debtors and Prepaid Expenses less Provisions		62,456			54,391	
Quoted Investments:						
Shares in Insurance Companies at cost (Market Value £10,481)		9,970			9,970	
(*Note:* There are contingent liabilities amounting to £900 for uncalled Capital on Shares held in certain Insurance Companies.)						
Deposits with Building Societies		15,186			15,000	
Tax Reserve Certificates		—			25,000	
Cash at Bankers and in hand		45,882			59,662	
		181,489			187,945	
Less Current Liabilities						
Creditors and Accrued Expenses	19,346			24,131		
Income Tax up to 1951–52 and Profits Tax to date	45,310			43,087		
Proposed Dividend of 27½ per cent less Tax on the Ordinary Shares for the year to August 31st, 1951 (net)	10,106			10,588		
Proposed Distribution of Interest on Tax Reserve Certificates	—	74,762		829	78,635	
Net Current Assets		106,727			109,310	
Deduct Future Taxation:						
Income Tax on the profits of the year	24,500				27,000	
Taxation Equalization Account	6,500	31,000	75,727		—	82,310
Total Net Assets			£118,479			£94,517
		Authorized	Issued and Fully paid			
Capital						
'A' Ordinary Shares of £1 each		—	—		11,000	
'B' Ordinary Shares of £1 each		—	—		11,000	22,000
1,000,000 Ordinary Shares of 2s each		£100,000	70,000		—	
Capital Reserve						
Estimated Excess Profits Tax Post-war Refund			19,882			19,882
Revenue Reserves						
General Reserve as at August 31st, 1950	48,000				48,000	
Less Capitalized per Resolution dated April 3rd, 1951	48,000					
Transfer from Profit and Loss Appropriation Account		20,000				
Profit and Loss Account		2,597	28,597		4,635	52,635
			£118,479			£94,517

M. GOLDSMITH }
S. PERRIN } *Directors*

CURRENT LAW

Liability for Excise Duty

The liability to duty in respect of whisky stolen from a bonded warehouse was considered by the Sheriff Court at Glasgow in July last in *Garngad Bonding Co Ltd v. Fraser, Bell & Co Ltd* (*Law Journal*, September 28th, 1951). The claim was by warehousemen against the owners of a quantity of whisky stolen from the warehouse and for which the warehousemen were called upon to pay duty under the Customs Consolidation Act, 1876. The plaintiffs thereupon sought to recover from the defendants, the owners.

The Sheriff-Principal affirmed the decision of the Sheriff-Substitute to the effect that the condition in the contract which relieved the plaintiffs from liability for loss by theft, had no bearing on the question of liability for duty, which liability was distinct from that for the safe custody of the goods. The Court referred to *Brook's Wharf Ltd v. Goodman Bros. Ltd* ([1936] 3 All E.R. 696) in which it was held that a warehouseman could not recover duty paid by him in respect of goods stolen as the result of his negligence.

Documentary Credit

Brazilian sellers contracted to sell groundnuts to Italian buyers and the latter undertook to open an irrevocable credit. The necessary export licence was obtained on February 9th, 1949, and the buyers advised by cable the same day and asked to open the credit. The import licence was obtained on March 4th. The credit was not made available until April 22nd.

It was held by McNair, J., that the credit must be opened within such time as would enable the shippers to ship at any time within the period of validity of the credit and not when the sellers were ready to ship and to tender the documents. (*Pavia & Co, S.P.A. v. Thurmann-Nielsen* (*Law Journal*, November 9th, 1951).)

Conflict of Laws: Administration

A person of German domicil of origin died intestate in India leaving estate in England. According to German law his infant son was entitled to three-fourths of the estate and the widow to the rest. The question for the Court was whether the Court had power to authorize the application of any part of the son's share to his maintenance or of the shares of the widow or the son for his or her advancement.

Danckwerts, J., held that there was power under the Trustee Act, 1925. It was well established, he said, that the devolution of personal property was regulated by the law of the country of domicil, while the law of England regulated the administration of property situate in England. This case lay between the two. All parties were agreed on the desired course and it was his opinion that Section 42 of Administration of Estates Act, 1925, applied, so that the personal representatives, though attorneys, could appoint trustees, whose powers depended on the provisions of English law. (*Re Kehr: Martin v. Foges* (*Solicitors' Journal*, November 10th, 1951).)

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Restriction of Overdrafts and Advances to Industry

SIR, – The restrictions which the Treasury are imposing on the banks with regard to the granting and continuity of advances and overdrafts to industry and commerce generally would seem to be having some effect, even at this early stage.

These restrictions, however, can by no stretch of the imagination be said to be beneficial to the small business, which has been compelled, by the continued rise in the cost of all basic materials, to seek the assistance of the bank in order to keep its wheels turning, and which will now find itself in difficulties.

There is no doubt that the instructions given to the Capital Issues Committee were justified in view of the impetus to inflation which was given by large bonus issues and flotations in recent years. The contraction of ordinary banking credits, however, can lead only to a slowing down in industry and subsequent unemployment, which in its turn leads to the vicious circle of restricted purchasing power and over-production.

Once again in our history it seems that pure economic theory is being applied, with no thought of the practical consequences and the hardships entailed; unfortunately for the profession, we accountants have to endeavour to make good the damage done by the economic experts.

Yours faithfully,

London, W1. HENRY LUCAS.

Non-practising Members of the Institute

SIR, – All non-practising members will welcome the Council's further step towards the appropriate recognition of their place in the Institute; though distressingly slow, progress can be seen.

I cannot let the closing paragraph of your leader (December 15th) pass, however, without registering a protest. I feel that there must be a majority of members who consider that the foundation of the Institute is no longer the practice of public accountancy but the highest standard of accounting skill irrespective of the field in which it is exercised.

Yours faithfully,

London, W9. H. J. WATSON.

NOTES AND NOTICES

The Accountant

INDEX TO VOL. CXXV: JULY–DECEMBER 1951

The general index to this volume – July to December 1951, Volume CXXV – will be published with the first part of the next volume, dated January 5th, 1952. The parts of this volume should therefore not be sent for binding until the index has been added to them.

Personal

MESSRS ARTHUR STUBBS & SPOFFORTH, Chartered Accountants, of 10 Shelley Road, Worthing, Sussex, announce that Mr MICHAEL GORDON SPOFFORTH, A.C.A., has been admitted to partnership as from October 1st, 1951.

MESSRS PERCY MASON & CO announce that as from December 20th, 1951, their address is 32 Queen Anne Street, Cavendish Square, London, W1. Telephone: Langham 7616 (3 lines).

MESSRS PEAT, MARWICK, MITCHELL & CO announce that Mr I. M. BOWIE, C.A., and Mr J. W. MARGETTS, A.C.A., have been admitted as partners in their London office.

MR DOUGLAS R. WARD, F.C.A., practising as DOUGLAS WARD & CO, Chartered Accountants, of 12–13 Grafton Street, London, W1, announces that as from January 1st, 1952, he has taken into partnership Mr MICHAEL EDWARD STANWELL, A.C.A., previously in practice as MICHAEL E. STANWELL at 73 Uphill Road, Mill Hill, NW7. The name of the firm will remain DOUGLAS WARD & CO, with offices at 12–13 Grafton Street, W1, and at Cheam, Surrey and Mill Hill, NW7.

Professional Notes

The Brush Electrical Engineering Co Ltd announces that Mr Ian Thomas Morrow, C.A., F.C.W.A., A.T.I.I., F.R.ECON.S., has been appointed a director of the company and will act as Financial Controller of the Brush Aboe Group.

Mr Stanley J. Russell, A.S.A.A., A.A.C.C.A., Assistant Accountant at the Central Office of General Motors Ltd, has been appointed Travelling Auditor in Europe to the American Express Company Inc., 6 Haymarket, London.

Crossword for Christmas: Solution

The solution to the 'Crossword for Christmas' by Mr Kenneth Trickett, A.S.A.A., which appeared in last week's issue, is as follows:

ACROSS: 4. Blotted; 8. Disclaim; 10. Estimate; 11. Acquaint; 13. Taxed interest; 15. Blue ink; 16. Omnibus; 19. Treasury bills; 23. Thursday; 24. Variance; 25. Material; 26. Referee.

DOWN: 1. Since; 2. Accurate; 3. Marine insurance; 5. Latent ambiguity; 6. Timber; 7. Deed; 9. Metric; 12. Issue; 14. Clerk; 17. Illusory; 18. System; 20. Advice; 21. Carat; 22. Over.

Tithe Act, 1951

The Tithe Act, 1951, amended the provisions of the Tithe Act, 1936, relating to the remission of annuities charged in respect of an agricultural holding.

If the annuities charged in respect of land wholly comprised in an agricultural holding exceed one-third of the annual value of that land for the twelve months ending on April 5th in any year, the landowner is entitled, under and subject to Section 14 of the Tithe Act, 1936, to remissions equal in amount to that excess from the instalments due in that year.

Hitherto, annuities which replaced extraordinary tithe rent charge did not rank for remission, but the Tithe Act, 1951 (Section 10 (8)), has removed that distinction. Henceforth, *all* annuities charged by the Tithe Act, 1936, can be included in any application for remission.

The Act also sets up a new procedure (Section 9) for determining whether the particulars of the agricultural holding and of the charged land within it are correctly stated in the landowner's application to the Surveyor of Taxes for a certificate of annual value. Application for such a certificate must, as heretofore, be made not later than March 1st in each year on the form prescribed by the new Rules (Statutory Instrument 1951, No. 1627) which replaces the Rules formerly made (S.R. and O. 1936, No. 1012). The form (No. 237) which is obtainable from Inspectors of Taxes, gives full information as to the method of making application, and subsequent procedure.

'Lend Strength to Britain'

The National Savings Movement, which has contributed so much in the past to Britain's social, industrial and economic welfare, will be engaged during the winter and spring on a vital new savings campaign aptly entitled 'Lend Strength to Britain'. With the support of the three chief political parties, the employers' organizations, the T.U.C., and various professional bodies, many cities and towns will hold special 'savings weeks' of their own, during which the advantages of investing in the 15*s* savings certificates and £5 defence bonds will be stressed.

The vital necessity and objectives of the campaign are concisely expressed in a message which the Chancellor of the Exchequer, Mr R. A. Butler, sent to Lord Mackintosh of Halifax, Chairman of the National Savings Committee, in which he says:

> 'The success of such a campaign would be of great importance to our economic position at the present time. A general response to your appeal to save more and withdraw less from past savings would, by reducing spending at home, greatly assist us in attaining our twofold objective – to rearm in order to maintain world peace, and to produce enough exports to pay our way in the world.'

Executives and accountants of firms engaged in commerce and industry can help this national cam-

paign by providing their employees with facilities for regular saving if these do not already exist.

All national savings schemes are easy to run, but the National Savings Committee at 1 Princes Gate, London, SW7 (telephone: Kensington 5166), or the committee's regional staff will be glad to give any advice or help required on savings securities and the provision of savings facilities.

Students' Residential Course in Yorkshire

A joint committee of the Leeds, Bradford and District Society of Chartered Accountants and the Chartered Accountants Students' Associations of Leeds and District, and Bradford and District, has arranged a residential course for articled clerks to be held next March. The course is divided into separate sections for Intermediate and Final students, and each section will have a maximum of fifty members. Intermediate students assemble on Monday afternoon, March 24th, and disperse on Friday afternoon, March 28th, while Final students will assemble on March 28th and disperse on Wednesday afternoon April 2nd.

The course will be held at Grantley Hall, a large country house near Ripon, and the charges will be £4 10s for Intermediate students and £5 5s for Final students.

This is the first residential course to be organized by these societies, and will no doubt prove a valuable supplement to the tuition curriculum for articled clerks.

Manchester Chartered Accountants' Students' Society

An accountancy 'quiz' (on the Institute's Final syllabus) took place at Manchester on Tuesday, December 11th, between teams from the Manchester and Preston Students' Societies, resulting in a win for the 'home side'. The quiz was followed by a 'hot-pot' supper and sing-song, to which the Preston team was invited.

The evening proved most entertaining as well as beneficial from an educational point of view, and the quiz illustrated that studies can be a pleasure.

Another recent innovation was the holding of an informal President's tea party for newly-articled clerks which gave an opportunity for the new students to become acquainted with the President of their society and to get to know each other and the committee members.

About thirty recently-articled clerks were present, and after a welcome by the President, Mr H. Sutherst, F.C.A., Mr A. L. Smith, A.C.A., the Hon. Secretary, explained the functions of the society and Mr T. S. Andrew, A.C.A., Hon. Secretary of the Joint Tuition Committee spoke about the tuition lectures and the joint residential courses held twice yearly at Burton Manor.

The experiment proved a great success, and the President hopes to repeat it at a future date.

Bournemouth and District Chartered Accountants' Students' Society

The first meeting in the New Year programme of the Bournemouth and District Chartered Accountants' Students' Society will be held on Thursday, January 17th, when Mr E. J. Green, H.M. Inspector of Taxes, will speak on 'The investigation of losses for income-tax purposes'. Other meetings arranged for 1952 include a lecture on February 21st entitled 'Wills', by Mr F. C. Fildes; a debate with the Southampton and District Students' Society on March 27th; and a mock creditors' meeting on April 24th.

All meetings take place at the Wedgewood Restaurant, Albert Road, Bournemouth, and commence at 6.15 p.m.

Wide Interests of Articled Clerks

UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

Fifty-three delegates, representing twenty students' societies, took part in the annual conference of the Union of Chartered Accountant Students' Societies, held in Birmingham on December 14th, 1951.

The subjects discussed included: the Institute's statistics of examination results; compulsory membership of students' societies; the operation of the Union's panel of lecturers and of its essay competitions; publication of information for students; the Carr-Saunders' report; the Institute's booklet on students' societies; principals, and the work of students' societies; financial restrictions on small students' societies; the possibility of large students' societies giving financial help to smaller societies; lack of support for students societies' activities on behalf of articled clerks; terms and conditions of articles; probationary period before articles; exchange of articles; premium and salary under articles; joint debates; and contact with America.

The conference received the report of its Liaison Sub-committee on their meeting with members of the Council of the Institute, and reappointed the Sub-committee to be available to discuss further with members of the Council any matters affecting articled clerks which might usefully be considered.

A conference was held on the following day between the secretaries of tuition and residential courses to exchange experience and ideas.

At an informal dinner after the conference, given by the Birmingham Students' Society, with Mr W. L. Barrows, F.C.A., a member of the Council of the Institute, and Mr C. H. S. Loveday, A.C.A., an Assistant Secretary of the Institute, attending, there were valuable opportunities for the exchange of experience.

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Recent Publications

INCOME TAX LAW AND PRACTICE, by Cecil A. Newport, F.A.C.C.A., and Oliver J. Shaw, Barrister-at-Law. xlv + 430 pp. 8½ × 5½. 25s net. Sweet & Maxwell Ltd, London.

BUTTERWORTHS COMMERCIAL CONTROLS, edited by Butterworths Legal Editorial Staff. Four volumes and subject index, also Service-Binder; each 10 × 6½. Vol. 1, Controls Generally, Employment, Exports and Imports, vi + 615 pp. Vol. 2, Financial Controls, Purchase Tax, Clothing and Textiles, 610 pp. Vol. 3, Food and Feeding Stuffs, 473 pp. Vol. 4, Industrial Materials, Miscellaneous Goods and Services, 430 pp. Four volumes £9 10s per set; postage and packing 2s extra. Fortnightly service, £2 15s per quarter. Butterworth & Co (Publishers) Ltd, London.

INCOME TAX, SUR-TAX AND PROFITS TAX. Thirteenth Edition, by E. Miles Taylor, F.C.A., F.S.A.A. xviii + 588 pp. 9 × 6. 30s net. Textbooks Ltd, London.

FORMS OF PUBLIC CONTROL AND OWNERSHIP, by Edward Goodman. 142 pp. 8 × 5½. 8s 6d net. Christophers, London.

THE SALE OF GOODS, by Clive M. Schmitthoff, LL.M. (LOND.), LL.D.(BERL.). xxviii + 273 pp. 8½ × 5½. 35s net. Stevens & Sons Ltd, London.

SHARE TRANSFER AND REGISTRATION IN COMPANY LAW AND PRACTICE, by A. K. Martin, F.C.I.S. xii + 139 pp. 8½ × 5½. 20s net. Stevens & Sons Ltd, London.

CLERICAL SALARIES ANALYSIS, 1950. 85 pp. 9½ × 6. 21s net. Office Management Association Ltd, London.

MODERN PRODUCTION CONTROL, Second Edition, by A. W. Willsmore, M.I.E.C.E., A.M.I.I.A., F.R.ECON.S., F.S.S. xiv + 185 pp. 9 × 5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.

THIRD SUPPLEMENT TO INCOME TAX, SUR-TAX AND PROFITS TAX, by E. Miles Taylor, F.C.A., F.S.A.A., and D. C. Don, A.C.A., A.T.I.I., A.C.I.S., Twelfth Edition (Finance Act, 1951). 13 pp. 9 × 6. 1s net. Textbooks Ltd, London.

MODERN OFFICE MANAGEMENT, Sixth Edition, by H. W. Simpson. ix + 237 pp. 9 × 5½. 10s net. Sir Isaac Pitman & Son Ltd, London.

WHITAKER'S ALMANACK 1952. xxxii+1,156+xxiii pp. 7½×5. Complete Edition 15s net, Shorter Edition (paper bound) 7s 6d net, Library Edition (leather bound) 30s net. J. Whitaker & Sons Ltd, London.

UNDERHILL'S LAW RELATING TO TRUSTS AND TRUSTEES, Tenth Edition, Supplement by M. M. Wells, Barrister-at-Law. xii+12 pp. 9½×6. 5s net, by post 5s 3d. Butterworth & Co (Publishers) Ltd, London.

ACCOUNTING TRENDS AND TECHNIQUES, Fifth Annual Survey of Corporate Annual Reports by the Research Department of the American Institute of Accountants. 176 pp. 11×8½. $10 net. American Institute of Accountants, New York.

STABILIZED ACCOUNTING, by G. R. Lees, M.A. 24 pp. 7½×4½. 2s 6d net. Northern Publishing Co Ltd, Liverpool.

KEY TO PROFITS TAX, edited by Ronald Staples. 220 pp. 8½×5½. 7s 6d net, 7s 9d post free. Taxation Publishing Co Ltd, London.

MEETINGS OF PRIVATE COMPANIES, Second Edition, by Peter E. Whitworth, B.A., Barrister-at-Law. xvi+143 pp. 8½×5½. 10s 6d net. Jordan & Sons Ltd, London.

GUIDE TO COMPANY BALANCE SHEETS AND PROFIT AND LOSS ACCOUNTS, Fourth Edition, by Frank H. Jones, F.A.C.C.A., A.C.I.S. xiii+418 pp. 9×6. 25s net. W. Heffer & Sons Ltd, Cambridge.

Other Publications Received

LOCAL GOVERNMENT FINANCE. (December.)
THE SECRETARY. (December.)
THE ACCOUNTANTS' MAGAZINE. (December.)
THE CHAMBER OF COMMERCE JOURNAL. (December.)
INDUSTRIAL WELFARE AND PERSONNEL MANAGEM- (November–December.)
THE ACCOUNTANTS JOURNAL. (December.)
JOURNAL OF THE INSTITUTE OF BANKERS. (December.)
INFORMATION. (Stockholm.) (December.)
DISTRICT BANK REVIEW. (December.)
THE INCORPORATED STATISTICIAN. (November.)

SEVENTY-FIVE YEARS AGO

FROM The Accountant OF DECEMBER 30TH, 18

Opening remarks of an address entitled 'On liability of public accountants to serve on juries, its bearing on the status of the profession', delivere the Fellows of the Manchester Institute of Account by Mr Chas. F. Richardson, F.M.I.A. (Fellow o Manchester Institute of Accountants) of London.

Gentlemen, – In the early part of the present ye received, for the first time in the course of professional experience, a summons to serve upon jury at the sessions, then about to be held at Assize Courts in this city. I was fortunately abl obtain relief from service on that occasion, but shortly afterwards summoned by the high sherif serve on the jury at the assizes, and notwithstand the efforts I made to obtain exemption, I compelled to attend.

Owing (fortunately again) to the light caler the jurors on the second list were dismissed waiting a hour or two in court. Personally, theref I experienced but little inconvenience. My atten however, was practically called to the great convenience which may, and undoubtedly does from the liability of members of our profession to s upon juries; and it was suggested to me that it a proper matter to submit to the consideration of Fellows of The Manchester Institute of Accounta one of the objects of the Institute being to exp opinions upon all questions relating to the profess

It occurred to me then, that the subject migh treated in its bearing upon the status of the profe generally. It is clear the we cannot claim exemp to which other analogous bodies are entitled, so as anyone may, at any time, style himself a p accountant without the absolute necessity of a for legal admission into the profession, preceded careful preparation for its duties.

The question of exemption from service u juries is not without difficulty, because it involv matter of public policy . . .

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STUDENTS' DINNER IN BIRMINGHAM

Birmingham Chartered Accountant Students' Society

There were 375 members and guests at the annual dinner of The Birmingham Chartered Accountant Students' Society held at *The Grand Hotel*, Birmingham, on Friday, November 21st. The President of the Society, Mr A. S. Maddison, F.C.A., presided, and among those present were Mr W. L. Barrows, LL.D., J.P., F.C.A., President of The Institute of Chartered Accountants in England and Wales; Sir Wilfred Martineau, M.C., T.D., M.A.; Mr D. H. Buchanan, F.I.B.; Mr C. A. Norris; Mr T. A. Hamilton Baynes, J.P., M.A., F.C.A.; Mr Stanley Dixon, M.A., A.C.A.; and Mr W. W. Fea, B.A., A.C.A.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Sir Wilfred Martineau spoke of the changes in accountancy in recent years. In former times, he said, trade accounts could be delayed for anything up to two years and it did not matter. Nowadays, however, manufacturers were no longer content with stale accounts, and neither were the banks. The manufacturer now wanted information about what was happening and whether he was making a profit or a loss.

Pride in a President from Birmingham

Sir Wilfred said that the City of Birmingham took great pride in the fact that the Institute's first President since the integration of The Society of Incorporated Accountants with the Institute was a Birmingham man.

Responding to the toast, Mr Barrows said that it was over forty years since there had been a President of the Institute from the Birmingham area and that was in 1916 when the late Mr A. H. Gibson held the position.

Referring to the Parker Committee formed by the Council of the Institute to study the problem of education and training for entrants to the profession, Mr Barrows said that the committee had a heavy task and he expressed the hope that students who were interested would give assistance to the Institute in this matter. Nothing more important had arisen for years, he said, than the whole question of training and education.

Proposing the toast of 'The Birmingham Chartered Accountant Students' Society', Mr D. H. Buchanan said that for better or for worse we were living in an age of great technical improvement, and competition in world markets was becoming increasingly keen; consequently accountants were playing an increasingly vital role. For the maintenance of industry a full use of financial resources was absolutely vital in the present day if the country was to keep its place in the commerce of the world.

Saying that Napoleon had once referred to England as a nation of shopkeepers, Mr Buchanan commented: 'I believe it is the shopkeepers who will win in the economic struggle of today. But good shopkeeping demands good accountants and I know we can all look confidently to the future because the work of your Society is to produce good accountants who will maintain that good accountancy'.

Replying, Mr P. E. Couse, honorary secretary of the society, reviewed some of the society's main events during the year. He said that the most outstanding event was the final amalgamation with the Incorporated Accountant Students' Society. He said that this was the first full year of integration and he was glad to say that it had caused no great disorganization of the society's activities – except for the fact that there had been a marked increase in attendance at evening lectures.

Best Lecture Programme

The main purpose of the students' society, he said, was to help in the education of its members, and Birmingham, with 1,500 members, had the most comprehensive range of lectures in the country with the exception of the London Students' Society.

Mr Couse welcomed the setting-up of the new committee to study the educational needs of the profession and said he thought it would help to revitalize the present system which was in constant need of revision to meet today's requirements.

He felt that the real strength of the students' society lay in its ordinary members. He said he had been told time and again by those who had qualified that they had found the society of the greatest help in their studies.

Mr C. F. M. Rawlinson, B.A., A.C.A., a committee member of the society, proposed the toast of 'Our Guests', and said it was a great and honoured privilege to entertain Mr Barrows. 'In Birmingham we are all very proud that he has been selected for his high post,' he said. Mr C. A. Norris responded to the toast.

Replying to the toast of 'The President', proposed by Mr D. R. Rowley, B.A., honorary treasurer of the society, Mr Maddison referred to the fact that it was more than forty years since a President of the Institute had come from Birmingham. 'It is with great sincerity,' he said, 'that I express the belief that it will be much less than forty years again before another President is chosen from Birmingham. I would like to express the hope that a member of the present students' society will reach that high post. It is, perhaps, premature to speak of quite such lofty ambitions but great achievements rarely come by chance and great success is the result of early determination.'

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REVALUATION OF ASSETS
WORKS, FACTORIES, PLANT & MACHINERY, Etc.

In Parliament

Income Tax: Schedule A

Mr PAGE asked the Chancellor of the Exchequer the annual cost, in each of the past ten years, of the administration of claims in respect of property assessed to tax under Schedule A for repairs and maintenance, for lost rents and for voids, respectively.

Mr SIMON: The precise figures of cost are not available. The work on maintenance claims required about 600 staff units in 1958 as compared with about 400 in 1949. The work on lost rent and void claims required about twenty staffs units throughout the period.

Mr PAGE: May I ask my hon. and learned friend whether it is the fact that only a very small proportion of people entitled to make maintenance claims actually make them? Does he agree that if everybody entitled to do so did make a claim, it would make it not worth while collecting Schedule A?

Mr SIMON: Certainly not all those entitled to claim do so. The second part of my hon. friend's supplementary question is hypothetical.

Mr PAGE asked the Chancellor of the Exchequer whether he will give an estimate of the cost of the quinquennial revaluation of rented property for Schedule A tax; and whether he is satisfied that such cost is justified having regard to the fact that, by virtue of the provisions for the collection of tax upon excess rents, the assessment for Schedule A tax is irrelevant to the amount of revenue collected.

Mr SIMON: Quinquennial revaluations for Schedule A were suspended in 1940 until Parliament decides to reintroduce them.

Mr PAGE: Before Parliament decides to reintroduce the revaluations, will my hon. and learned friend consider whether it is really worth while continuing the two systems of collection of tax on Schedule A and on excess rents? Would not it be more economical to do away with Schedule A, collecting it all on total rents?

Mr SIMON: No, Sir; that is not possible under the existing law.

Mr GOWER asked the Chancellor of the Exchequer what proportion of Schedule A tax was paid last year in respect of owner-occupied houses and flats; and what consideration he has given to abolishing this tax in respect of such premises.

Mr SIMON: The total income tax for last year attributable to owner-occupation of houses and flats is estimated at about £35 million. My right hon. friend will keep this and all other taxes under review in preparing his Budget.

Mr GOWER: In keeping this matter under review, will my hon. and learned friend ask my right hon. friend to take into account the fact that it would be a great stimulus to house ownership if this tax were abated or removed?

Mr SIMON: I will certainly draw my hon. friend's remarks to the attention of my right hon. friend.

Mr BELLENGER: Was that the gross figure or the net figure after maintenance claims had been made?

Mr SIMON: That was the net figure.

Mr PAGE asked the Chancellor of the Exchequer what revenue would be lost by abolishing Schedule A tax upon owner-occupied business premises.

Mr SIMON: About £3 million.

Mr PAGE: Would my hon. and learned friend agree that this is a very cumbersome way of collecting tax – by charging it on one schedule and giving it back on another? Is not this another instance of the Chancellor being able to do away with Schedule A?

Mr SIMON: No, Sir. There may be respectable arguments for the abolition of Schedule A on owner-occupation, but this is not one of them. The income charged under Schedule A does not qualify for earned income relief, and it would be quite inequitable to abolish the Schedule A charge on owner-occupied business premises. The trader who occupies premises at a rack-rent cannot claim earned income relief on so much of his gross income as is paid away in rent and deducted in arriving at his profits for income tax purposes, and there is no reason why more favourable treatment should be given to his competitor who owns his own premises. That point was made by the Royal Commission on the Taxation of Profits and Income, together with other arguments.

Hansard, Nov. 20th, 1958. Oral Answers. Col. 1294.

Coinage: Decimal System

Mr LIPTON asked the Chancellor of the Exchequer when he proposes to introduce a decimal coinage.

Mr ERROLL: My right hon. friend has no such proposal in mind.

HON. MEMBERS: Hear, hear.

Mr LIPTON: What is there to 'hear, hear' about? Is the Economic Secretary aware that, seven years ago, the Hodgson Committee reported in favour of the adoption of the metric system and decimal coinage? Does he appreciate that the Government are continuing to earn the execration of generations of schoolchildren who are forced to learn the present very unsatisfactory system of weights and measures?

Mr ERROLL: I do not think that our system of currency, as distinct from weights and measures, is as unpopular in the country as the hon. gentleman supposes.

Mr SHINWELL: Does not the Economic Secretary agree that there is really nothing wrong with our present coins except that some of us cannot get enough of them?

Hansard, Nov. 20th, 1958. Oral Answers. Col. 1299.

Income Tax: Notices

Mr PAGE asked the Chancellor of the Exchequer if he will review the form of notices, such as that headed Finance Act, 1958, Settlements, issued by the Special Commissioners of Income Tax, following upon the passing of Finance Acts, so that they may be more explanatory of the subject to which the Commissioners desire to draw the taxpayers' attention.

Mr SIMON: The Inland Revenue will try to give more explanation of the subject-matter in any such notice which may be issued in the future.

Hansard, Nov. 20th, 1958. Written Answers. Col. 179.

Personal Incomes

MR LEWIS asked the Chancellor of the Exchequer whether he will publish in *Hansard* a table of figures giving the net income received by a man claiming normal tax reliefs for a wife and two children, after deduction of normal income tax and surtax charges, for each financial year from April 1950 to April 1958–59, in the wage and salary scales, £400, £600, £750, £1,000, £10,000, and £20,000 per annum, respectively.

MR AMORY: Yes.

Hansard, Nov. 18th, 1958. Written Answers. Col. 124.

NET INCOME AFTER DEDUCTION OF INCOME TAX AND SURTAX, OF MARRIED MEN WITH TWO CHILDREN (BOTH UNDER ELEVEN YEARS OF AGE)
INCOME ALL EARNED

Gross Income	Net Income								
	1950–51	1951–2	1952–53	1953–54	1954–55	1955–56	1956–57	1957–58	1958–59
£	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
400	397 10 0	400 0 0	400 0 0	400 0 0	400 0 0	400 0 0	400 0 0	400 0 0	400 0 0
600	561 5 0	565 0 0	587 0 0	589 3 4	589 3 4	597 0 0	597 0 0	597 0 0	597 0 0
750	671 5 0	678 0 0	706 11 8	711 13 4	711 13 4	723 9 2	723 9 2	723 9 2	723 9 2
1,000	831 5 0	833 0 0	888 6 8	898 5 7	898 5 7	914 10 0	914 10 0	914 10 0	914 10 0
10,000	3,683 15 0	3,465 10 0	3,534 5 0	3,763 10 0	3,763 10 0	4,000 15 0	4,000 15 0	4,580 15 0	4,580 15 0
20,000	4,408 15 0	3,940 10 0	4,009 5 0	4,488 10 0	4,488 10 0	4,975 15 0	4,975 15 0	5,593 [illegible] 0	5,593 5 0

LONDON STUDENTS' COLUMN

News from the London Chartered Accountant Students' Committee

Membership

New student members admitted during the year have exceeded 1,000 for the first time in the history of the Society. In addition, some 1,600 students have been transferred from the former Incorporated Accountants Students' Society. The total membership is now over 7,000.

Mr D. R. Waters has joined the committee to fill the vacancy caused by the resignation of Mr L. G. Payne, A.C.A., reported last month.

Social

The students' supper recently held was quite as enjoyable and completely informal as had been hoped. It is intended to arrange another such supper in the spring. The meet-the-committee lunches are also proving a success; the last this session will be on December 1st, as noted on the programme.

The speakers' course continues to be a popular and valuable side of the Society's activities. The final meeting of the course on December 2nd will be a dinner debate and mock parliament – not to be confused with the mock company meeting of Miss Adventures Ltd on the previous day!

The number for the Christmas dance at the Royal Festival Hall on December 19th is 1,100, and there is a waiting list for any tickets which may be returned.

Over 1,300 members will be attending the annual dinner at *Grosvenor House*, Park Lane, London, at which the speakers will include the Lord Mayor of London, known to us as Sir Harold Gillett, our immediate Past President, and Lord Rowallan, the Chief Scout.

Education and Training Subcommittee

Members are reminded that December 13th is the last day for sending in to Mr R. J. Carter their views and suggestions for consideration by the subcommittee, which will be drafting the memorandum for submission to the Institute's Committee on Education and Training.

Union Conference

The annual conference of the Union of Chartered Accountant Students' Societies will be held at Bristol on December 4th and 5th to discuss many subjects of importance to articled clerks, especially in relation to the review of education and training.

Lectures

For the spring session next year, we shall be back in the Oak Hall of the Institute for all except the larger meetings.

The 'Practical Aspect' and the introductory courses this session have both shown encouragingly increased attendances and the whole-day course on November 10th was again oversubscribed by 100 per cent.

Branches

The first meeting of the new branch at Reading was held on November 25th. The new Mid-Surrey Branch has also made an encouraging start. Members living in these areas should ask for details of meetings.

Sport

The Association football match against Reading University was lost – three goals to nine.

Notes and Notices

PERSONAL

Messrs Cassleton Elliott & Co announce that Mr H. C. Carter, F.S.A.A., who has been resident partner for some years in Freetown, having reached the age limit, is retiring from the firm on December 31st, 1958. Mr S. P. Brewster, F.C.A., senior resident partner of Cassleton Elliott & Co, Ghana, will succeed him as controlling partner with Mr D. J. B. Herrera, A.C.A., as resident manager.

Messrs Sinclair, de Mesquita & Co, Chartered Accountants, announce that they have removed their offices to 118 Old Broad Street, London, EC2. Telephone: London Wall 2961.

Messrs Sinclair, Furman & Co, Chartered Accountants, announce that they have removed their offices to 118 Old Broad Street, London, EC2. Telephone: London Wall 2961.

Messrs Landau, Morley & Scott announce that as from November 11th, 1958, their principal offices formerly situated at 52–54 High Holborn, London, WC1, have been removed to 2 Bentinck Street, London, W1. Telephone: Hunter 2201.

PROFESSIONAL NOTES

Mr H. T. C. Reid, F.C.A., has been appointed chairman of Dalkeith (Ceylon) Rubber Estates Ltd.

Mr Douglas Alfred Trigwell, A.C.A., has been appointed administrator and company secretary of Galitzine & Partners Ltd, and its associated company, PRO Service Ltd.

Mr J. R. Dawes, A.C.A., secretary of National Plastics Ltd, has been appointed a director of the company and of its subsidiaries.

Mr James Ritchie, C.A., has been elected to the board of Scottish Cables Ltd.

OBITUARY

Montagu Lathom Gedge, Q.C.

It is with great regret that we announce the death last Monday, at the age of 59, of Mr Montagu Gedge, Q.C.

Mr Gedge, who had been chairman of the panel of judges for *The Accountant* Annual Awards since their inception in 1954, was chairman of the committee set up by the Board of Trade in 1952 to consider the desirability of permitting the issue of shares of no par value. He was also a member of the Company Law Amendment Committee, 1943.

Educated in Bonn and at Merchant Taylors' School, he served in the First World War from 1917–19. He then read for the Bar, being called by the Inner Temple in 1922. He took silk in 1949 and retired from practice in the summer of last year.

Montagu Gedge had many friends in the accountancy profession. From years of notable experience he had acquired a special technique for dealing with financial matters – a remarkable compound of robust common sense, ability to distinguish sharply between the relevant and the irrelevant, and complete honesty of mind. For many, he started by being a professional adviser and soon became a dear friend. The whole accountancy profession, for which he had sympathy and understanding, is indebted to him because he was not only a good lawyer but was also profoundly interested in company law reform and the integrity of business affairs.

For five years, successive representatives of the City and of the accountancy profession took their places on the panel of judges for *The Accountant* Annual Awards and rejoiced to serve under a chairman abounding in practical wisdom, profound legal knowledge and genial enthusiasm.

We grieve for a warm-hearted and unselfish colleague and a reliable and wise adviser.

CHARTERED ACCOUNTANT ADOPTED AS LIBERAL CANDIDATE

Mr Lawrence W. Robson, F.C.A., F.C.W.A., has been adopted as prospective Liberal candidate for the North Norwich constituency. Mr Robson, who is a former President of the Liberal Party, is a member of the Councils of the English Institute and The Institute of Cost and Works Accountants. Mrs Robson is the prospective Liberal candidate for the Eye Division of Suffolk.

E.C.G.D. COVER FOR ENGINEERING GOODS

The Export Credits Guarantee Department has simplified arrangements for cover on those engineering goods commonly sold on credit terms ranging from six months to three years maximum, whatever the unit value of those goods, which are covered by 'Extended Terms' endorsements or memoranda attached to the normal short-term cover. The short-term cover will continue to apply to raw materials and consumer goods.

Hitherto the credit terms acceptable for insurance within this field have been decided for each application for cover on an individual transaction. E.C.G.D. has now informed such policy-holders that they can assume there will be no objection to credit terms up to two years' maximum in respect of orders of £20,000 or more for either commercial credit users (such as distributors) or for end-user buyers; and that there will be no objection to terms up to three years' maximum for orders of £50,000 or more for end-user buyers.

MUNICIPAL DEBT INCREASE

The eighth biennial *Return of Outstanding Debt at March 31st, 1958*, compiled by The Institute of Municipal Treasurers and Accountants,[1] shows that the total debt for which local authorities were responsible was £2,402·9 million, a rise of over £415 million compared with £1,987·5 million two years previously. Of this total, housing accounted for £1,409·4 million and education £520·1 million.

The publication contains statistics for all county boroughs, counties and metropolitan boroughs and a sample of 215 non-county boroughs, 195 urban districts and 126 rural districts. Particulars of the methods by which loans were raised and the average rate of interest at which interest was paid on these loans at March 31st, 1958, are shown in a summary.

[1] The Institute of Municipal Treasurers and Accountants (Incorporated), 1 Buckingham Place, London, SW1. 7s 6d post free.

CHARTERED ACCOUNTANTS' DINNER AT GRIMSBY

The annual dinner of the Grimsby and North Lincolnshire Branch of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants was held at *The Royal Hotel*, Grimsby, on Thursday, November 13th. The branch Chairman, Mr M. G. Bain, F.C.A., was in the chair, supported by the President, Mr A. A. Beardsall, F.C.A.

Approximately 125 members and guests attended and among those present were:

Sir John D. Marsden, Bart., Mr W. H. Lawson, C.B.E., B.A., F.C.A. (*Immediate Past President, Institute of Chartered Accountants in England and Wales*); Alderman M. Larmour (*Mayor of Grimsby*); Councillor W. Solomon (*Mayor of Cleethorpes*); Messrs D. C. S. Downs, F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); C. M. Strachan, O.B.E., F.C.A. (*a member of the Council of the Institute*); Lieut.-Col. N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A. (*Chairman, Lincoln and South Lincolnshire Group of Chartered Accountants*); and Mr John H. West, M.A., LL.B.

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Sir John Marsden. Responding, Mr W. H. Lawson, referred to the new recommendation of the Council dealing with the treatment of investments in the balance sheets of trading companies.

Mr J. B. Harrison, F.C.A., past chairman of the branch, proposed the toasts of 'The Guests', a response to which was given by Mr John H. West.

STOKE-ON-TRENT CHARTERED ACCOUNTANTS' DINNER

The annual dinner of the Stoke-on-Trent Area Branch of the Birmingham and District Society of Chartered Accountants was held at Stoke on November 12th. Mr R. A. Harding, F.C.A., Chairman of the branch, presided over the company of 144 members and guests. Among those present were Mr W. L. Barrows, LL.D., J.P., F.C.A., President, The Institute of Chartered Accountants in England and Wales; Col. Sir George Wade, M.C., J.P., President, North Staffordshire Chamber of Commerce; Mr R. S. Deacon, President, North Staffordshire Law Society; and Mr R. Bails Johnson, M.C., T.D., J.P., President, British Pottery Manufacturers' Federation.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Dublin and District Branch

A dinner of the Dublin and District Branch of The Institute of Cost and Works Accountants was held at *The Shelbourne Hotel*, Dublin, on November 1st, under the chairmanship of Mr P. F. Kennedy, F.C.W.A., President of the branch.

The principal guest was Dr J. I. FitzPatrick, PH.D., B.COMM., F.C.A., President of the Federation of Irish Industries, who responded to the toast 'Prosperity to Ireland', proposed by Mr Derek du Pré, Secretary of the Institute. In the course of his speech, Dr FitzPatrick stated that the greatest measure of prosperity in a community can only be attained when all sections are pulling in one direction; with this end in view he suggested that there should be one comprehensive organization embracing the different bodies representing the industrial, agricultural, commercial, professional and other sections of the country. 'The creation of a nation-wide comprehensive organization integrating these organizations would create a unity of purpose absent today', he added.

Mr Kevin McCourt, director, P. J. Carroll & Co Ltd, Dundalk, proposed the toast of 'The Institute of Cost and Works Accountants' to which Mr H. J. Furness, F.C.W.A., President of the Institute, replied. The toast of 'The Guests' was proposed by Mr Kennedy, and Mrs C. Byrne, Lord Mayor of Dublin, responded.

The President of the Institute and Mrs Furness, together with Mr Derek du Pré and Dublin and District Branch officers, were earlier received at the Mansion House, Dublin, by the Lord Mayor.

NEW ZEALAND ACCOUNTANTS' YEAR-BOOK

The New Zealand Society of Accountants' Year-book for 1958 shows that membership of the Society increased by 197 over the previous year, bringing the total number of members to 6,388. Of these, 4,460 are situated in North Island, 1,703 in South Island and 225 overseas. The number of members in practice is shown to be 1,791, while there are 4,597 not in practice

The *Year-book* contains alphabetical and topographical lists of members together with the names of members of the forty-ninth Council and details of the membership of the Council's six committees. A scale of fees which the Council of the Society recommends should be used by members as a basis for fixing fees is included, from which Sections 1 and 2 are reproduced:

(1) *Auditing, Accounting, Secretarial and General Work:*

Charge for all professional work (including work undertaken continuously or by contract yearly or half-yearly) to be based on the time necessary and reasonably devoted to each matter by principals and/or staff:

(*a*) Principals – £1 11*s* 6*d* to £3 3*s* per hour;

(*b*) Assistants' time to be charged at a rate equalling twice the salary paid, based on a working year of 1,500 hours.

(2) *Investigations, Specialized and Urgent Work:*

(*a*) Special rates for special work, with a minimum fee for principals of £3 3*s* per hour.

(*b*) Assistants' time to be charged as in (1) (*b*).

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AUSTRALIAN INSTITUTE'S NEW PRESIDENT

At the November meeting of the General Council of The Institute of Chartered Accountants in Australia, Mr J. W. Peden, F.C.A.(AUST.), a partner in the firm of R. G. Groom & Co, Brisbane, was elected President. Mr G. C. Tootell, F.C.A.(AUST.), of Melbourne, and Mr Colin R. Kelynack, F.C.A.(AUST.), of Sydney, were elected Vice-Presidents.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The next meeting of the London and District Society of Chartered Accountants will be held in the Oak Hall of the Institute next Tuesday at 6 p.m., when Mr G. F. Saunders, F.C.A., will speak on 'The Institute's Recommendations'.

INTERNATIONAL FISCAL ASSOCIATION

United Kingdom Branch

A meeting of the United Kingdom Branch of the International Fiscal Association, to be held next Thursday at 6 p.m. in the P. & O. boardroom at 122 Leadenhall Street, London, EC3, will be addressed by Mr J. F. MacGregor, tax adviser to the Ford Motor group, on 'The administration of income taxes: some views on the British system in operation'.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

In view of the special prayer meeting to be held in connection with the campaign of the Federation of London Christian Unions at 6 p.m. next Monday, December 1st, at Livingstone Hall, Broadway, Westminster, SW1. the monthly prayer meeting of The Accountants' Christian Fellowship at the same time has been cancelled.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings will be held during next week:

Monday: Whole-day course (limited number).
Lectures on 'The audit of mechanized accounts', by Mr J. W. Margetts, F.C.A., and on 'Company meetings', by Mr W. F. Talbot, F.C.I.S., F.T.I.I., F.R.ECON.S. Lecture, film and demonstration of punched-card accounting
12.30 p.m. at Incorporated Accountants' Hall: 'Meet-the-committee' meeting (stand-up lunch can be obtained).
5.30 p.m. at Caxton Hall, Victoria Street, SW1.: A mock company meeting.

Tuesday: Visit to Lloyds Bank (limited number).
6.15 p.m. at *The Railway Tavern*, Liverpool Street, EC2.: Dinner debate with a mock parliament.

Saturday, 10.15 a.m. at Luton: Lectures on 'Branch accounts' and on 'Consolidated accounts', by Mr V. S. Hockley, B.COM., C.A., A.A.C.C.A.

OFFICIAL NOTICES

(*See also page* XVII)

ACCOUNTANCY ASSISTANT (General Administrative Grade) for Treasurer's Department. Wide knowledge of accountancy essential. Salaries and wages experience desirable. Salary scale £750 × £35(6) × £40(1)–£1,000 plus London Weighting Allowance. – Applications, giving age, education, experience, present salary, together with names of two referees to the Secretary, North-east Metropolitan Regional Board, 40 Eastbourne Terrace, W2, within seven days.

Government of the Federation of Rhodesia and Nyasaland

Federal Audit Department

VACANCIES FOR AUDIT EXAMINERS

The Federal Government Audit Department offers an interesting and rewarding career to young men:

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SENIOR EXAMINER, £740–£1,150.
ASSISTANT AUDITOR, £1,250–£1,550.

and promotion through these grades is dependent on efficiency and on an officer passing certain departmental examinations. Promotion thereafter is dependent on merit and vacancies in grades with salaries from £1,600 to £3,500.

Commencing salaries range from £460 for a school-leaver with five G.C.E. subjects passed at 'O' level to £900 for the holder of the Final examination of The Institute of Chartered Accountants. One increment, up to a maximum of four, is granted in the scales for each year of approved previous experience and credit is also given in certain circumstances for completed years of national service. Examples of progression are:

(i) The entrant at £460 can, if he passes departmental examinations modelled on a B.Comm. course, proceed to £740 p.a. after three years and to £1,250 p.a. after a further three years.
(ii) The Chartered Accountant who commences at £900 can, on passing a departmental examination covering the financial aspects of the Federal administration, proceed to £1,250 after one year.

Depending on qualifications and previous experience, other entrants can reach £1,250 p.a. after periods of one to five years.

Further details and application forms from the Secretary (R), Rhodesia House, 429 Strand, London, WC2. Closing date December 20th.

Hertfordshire County Council

ELECTRONIC COMPUTER INVESTIGATION

Applications are invited from fully-qualified Accountants with considerable experience of accountancy in a large organization, and preferably in the computer field. The person appointed will hold the rank of Assistant Treasurer (scale £1,475–£1,695), the starting salary depending upon experience. With the help of a qualified accountant and of the organization and methods team, he will be responsible for reviewing present methods and preparing for the installation of a computer.

This is not a temporary post.

Applications, together with the names of two referees, to the County Treasurer, County Hall, Hertford, by December 19th, 1958.

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ACCOUNTANT

ESTABLISHED 1874

DECEMBER 6TH, 1958 VOL. CXXXIX. NO. 4381

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Computer Landmark

A MOMENTOUS fortnight in the computer world is over – a fortnight which had for long been a red mark in the diaries of many accountants and industrial executives both in the United Kingdom and abroad; it started last week at the National Physical Laboratory with the symposium on the mechanization of thought processes, and continued at Olympia with the Electronic Computer Exhibition and Business Computer Symposium.

The exhibition has been a most enterprising effort on the part of its organizers, and at Olympia electronic panels were to be seen flashing off on almost every stand. At least fifteen computers were on view and in action, many of them demonstrating actual jobs which similar machines are doing daily in customers' offices. With a total value of exhibits of over eight million pounds, the exhibition is reputed to have had a greater value per square foot than any other exhibition staged there.

Figures of the attendance were not recorded, but even the organizers were surprised at the large numbers and at times it was impossible to get near some stands. It is yet too early to assess what sales may result, but there is no doubt that the exhibition has created interest in many places which will be followed by more detailed investigation.

At the Business Computer Symposium, the numbers attending at each session exceeded 700 and included delegates from many countries overseas, amongst which were Russia and the U.S.A. This demonstrates the world-wide interest in both the exhibition and the symposium. Some twenty papers were presented – summaries of those which are of more particular interest to the accountancy profession appear on other pages of this issue.

The amount of information presented in each paper was immense, and the confident way in which the speakers responded to the many searching questions in the ensuing discussions showed the progress which has been made in applying computers to a great variety of tasks.

One thing is beyond doubt, the past fortnight has dispelled any thoughts that computers are still devices of the future; there is, in fact, ample proof that they have already become woven into the framework of the business life of the country. This alone makes the exhibition such an important landmark of progress in the computer field; from now on, computers are accepted and those concerned with them are no longer pioneers, but are making ever-growing use of a well-tried and proven tool for both scientific and commercial uses.

Take-over Bids and Bids for Control

SOME LEGAL ASPECTS

by A BARRISTER-AT-LAW

Recently, bids of one kind or another have been making their appearance with increasing frequency. In 1957 they averaged more than one per working day; this year the financial Press has reported as many as three a day. There are, of course, reasons for this vogue, some of which are examined in this article together with the law relating to take-overs generally.

WHILE a successful bid involves a change in the ownership of a company it makes no change in the legal structure or functions of the company, though these results may flow later from the change of ownership. The bid differs from a purchase of shares on the stock exchange in that it is an 'offer' made publicly to the holders of all the shares of a particular class in the company concerned, notwithstanding that only a percentage of such shares may be the subject of the offer, and that it may take the form of an invitation to shareholders to offer their shares to the bidder at a named price.

Bids can be classified under four main heads according to the object of the bidder in making the bid: (i) industrial mergers; (ii) 'shell operations'; (iii) bids to exploit the assets value of the company taken over; and (iv) bids by 'empire builders'.

Mergers

A recent example of an industrial merger is the absorption of W. T. Henley's Telegraph Works by Associated Electrical Industries for the following reasons given by the chairman of the latter company:

(*a*) saving in capital expenditure through avoiding duplication of effort;

(*b*) reduction in the present extreme variety of cables produced;

(*c*) saving on research and development in a period of rapid technical advance, when the strain on high-level research staff is considerable; and

(*d*) the advantages of a larger manufacturing base than either company could provide independently.

Other factors usually involved in such cases are the partial elimination of competition and the move towards rationalization which provides a better competitive position where large-scale contracts are involved, as in the cable-making industry.

Amalgamations of this kind are generally made for sound economic reasons and in some industries like the aircraft industry, which is facing strong American competition, the formation of bigger units is actively encouraged by the Government.

Shell Companies

A more intriguing type of take-over is that which uses the technique of the 'shell company'. A shell company is one which has lost or disposed of its trading assets, or most of them, but whose shares are quoted on a recognized stock exchange. By means of the 'shell operation' a private company can be placed outside the scope of surtax directions at less cost than by making a public flotation of its own, or by 'placing' 25 per cent of its shares with the investing public, and in circumstances in which the company might be too small or lacking in a sufficient profit record to do either. A shell company is also the means whereby past and future profits of the private company can be capitalized.

To effect these benefits the directors of the private company first obtain surtax clearances in respect of the company for the past six years. They then purchase a shell (which may cost £7,000–£12,000, exclusive of assets) from among unprofitable companies or mining or rubber plantation companies which have disposed of their assets (except cash), with an objects clause wide enough to cover the business carried on by the private company. Not more than 75 per cent of the shares of the shell company (unless the balance is subsequently sold to the public) are then acquired by the owners of the private company.

The shell company then purchases the shares of the private company for their full value; and if

the private company has a fund of undistributed profits (as it probably will) this will be included in the sale price without any deduction for future tax liability. If the shell company has any cash, this can be utilized in part payment for the private company's shares, but the cash assets of the private company cannot be used for this purpose, as Section 54 of the Companies Act, 1948, forbids a company to provide financial assistance towards the purchase of its own shares. Also, because of Section 27 of the Companies Act, it is important that the shares of the shell company should be acquired by the owners of the private company and not by the company itself.

Capitalization of Profits

The balance of the purchase consideration (or the whole of the consideration if the shell company has no cash) may be satisfied by the issue to the owners of the private company of unsecured loan stock in the shell company (which may or may not bear interest) repayable over a term of years out of the future profits of the shell company, of which the former private company will now be a wholly-owned subsidiary. The future profits of the shell company – to the extent of the loan stock created – will thus reach the proprietors of that stock (who are the former owners of the private company) in the form of capital, which is one of the objects of the shell operation. While they will have to forgo 25 per cent of the ordinary share capital of the shell company in favour of the public, the 'public' may include friends and relatives of the vendors, provided the shares are held by them unconditionally and the relatives are not relatives within the meaning of Section 256 (3) (*a*) of the Income Tax Act, 1952 (*Tatem Steamship Navigation Co Ltd v. C.I.R.* (24 T.C. 57; 20 A.T.C. 137)).

Prior to the Control of Borrowing (Amendment) Order, 1958, a rapidly expanding hire-purchase company in need of additional cash could replenish its coffers without the consent of the Capital Issues Committee by taking over a shell company with large liquid resources in exchange for its own shares. Such an operation is now made subject to compliance with the Order.

Exploiting Assets Values

Stock exchange quotations, while making due allowance for a number of other factors, are usually based on current or estimated earnings and earnings cover, together with profits record. Assets backing is not reflected in share prices to the same extent unless there is a take-over in the offing or the company is to be liquidated. While inflation has pushed up the value of most companies' assets, considerations of surtax and the high rate of distributed profits tax prior to April 1st, 1958, have tended to keep dividends down to a lower percentage of net earnings than in pre-war days. Many companies which are paying conservative dividends and accumulating large reserves are thus sitting targets for would-be bidders who consider they can employ the company's assets to better advantage than the present directors.

By and large, the bid technique has been highly developed and largely employed by a relatively small number of highly successful industrial and commercial groups, whose operations are assisted by Schedule VIII to the Companies Act, 1948, which requires companies to furnish accounts in far greater detail than was the case under earlier legislation. If the shares of the company to be taken over are widely held, so much the better, since a scattered body of shareholders is less able to bargain for a better price.

Objects of the Bid

A bid may be made for ownership or for control or for a small percentage of a company's capital. (Recently a bid was made for 23 per cent of the ordinary share capital of Whiteley Stevens (Holdings), rayon and nylon manufacturers.) If the object is to acquire ownership of the company, the bid takes the form of an offer for all the equity capital at a named price per share conditional upon acceptances from holders of 90 per cent of the capital being received by a certain date – three weeks hence. If the holders of 90 per cent accept, the bidder, if a company, can compel the outstanding minority under Section 209 of the Companies Act to transfer their shareholdings to it (usually upon the same terms), while the minority can compel the bidder to purchase their shares.

Offers may take the form of cash, or shares in the bidding company which may or may not be of the same kind as the acquired shares, or both. Although the City has made it clear that it does not like non-voting shares, in recent years shares offered in exchange for ordinary shares are frequently of the non-voting variety known as 'A' ordinary shares.

If control and not ownership of a company is desired, a successful bid for 51 per cent of the equity is all that is required. A circular invites

the offer of such number of shares to the bidder as is sufficient to give control and states that any offers over that number may not be accepted. Through fear of being forced into a minority position without any option, shareholders usually hasten to accept the offer (which may be unfair in relation to the company's assets). The partial bid is therefore fraught with greater dangers for shareholders than the bid for ownership, especially if the identity of the bidder is not disclosed. (Some finance houses acting for clients insist on the bidder's identity being made known.) On the other hand, minority shareholders may benefit greatly if control is acquired by a major or highly successful company. In the case of Trinidad Petroleum Development, for example, the price of the company's shares doubled not long after control was acquired by British Petroleum, aided, no doubt, by the prevailing economic climate at the time. But whether the bid be for ownership or control, the bidding company will most likely have already 'infiltrated' into the company to be taken over by purchasing a minority holding in the market in the names of nominees.

As might be expected, the most successful 'empire builders' are among the most skilful and experienced operators in the take-over field, but such success is only made possible by a record of business management which has proved highly advantageous to shareholders. Some, like Debenhams, House of Fraser and Great Universal Stores, confine their activities, in the main, to retail trading, while Sears Holdings combines retail trading with shipbuilding, engineering and other trades.

Statutory Aids and Restrictions

Once ownership or control of a company has been acquired by the bidders, a simple majority at a general meeting is sufficient under Section 184 of the Companies Act to oust the sitting directors, notwithstanding anything in the articles or in any agreement between the company and the directors. Prior to the Act of 1948, directors could entrench themselves either by clauses in the articles or by special agreements, so that an adverse majority among the shareholders might be unable immediately to take effective action to assert their control.

Section 55 of the Finance Act, 1927, provides relief both from *ad valorem* conveyance duty and from companies' capital duty in the case of certain reconstructions and amalgamations. Two common methods of amalgamation are covered: one where a company acquires the undertaking of another company, and the other where a company acquires not less than 90 per cent of the share capital of another company, in each case in consideration of an issue of the acquiring company's shares. Section 42 of the Finance Act, 1930, also provides exemption from *ad valorem* conveyance duty in the case of transfers between companies associated in one of the ways described in Section 42 (2) (*b*).

The Prevention of Fraud (Investments) Act, 1958, consolidates the similar Act of 1939, Section 117 of the Companies Act, 1947, and so much of the Companies Act, 1948, as relates to these enactments. Section 14 of the new Act places restrictions on the distribution of circulars relating to investments, the broad effect of which is that a company cannot communicate a bid to the shareholders of another company except through the board of that company, or through a stockbroker or licensed dealer, such as a finance house. Section 13 makes it a penal offence fraudulently to induce persons to enter into or offer to enter into any agreement for, or with a view to, acquiring or disposing of shares.

The Control of Borrowing (Amendment) Order, 1958, while easing borrowing restrictions generally, brings under control some take-overs which previously did not require the consent of the Capital Issues Committee.

Steps to Defeat the Bidder

The more obvious ways in which the task of a prospective bidder can be made more difficult are:

(i) by a revaluation of the company's assets to bring them into line with current values;

(ii) by the issue of bonus shares so as to make the worth of a company more nearly reflected in its share capital;

(iii) by a repayment of surplus capital; and

(iv) by raising the dividend with a view to lifting the market price of the shares.

Other steps which, however, are open to varying degrees of criticism, are to issue shares carrying special voting rights to pension fund trustees, to lengthen directors' service agreements, and to regulate the voting rights attaching to shares according to the period during which they are held. The popularity of the non-voting share as another protective step appears to be on the wane, some companies now adopting the policy of converting such shares into voting shares to make a take-over bid more expensive. In a recent case in the property share market, A company held 16 per cent of B company's

shares – some as a result of an unsuccessful bid. By acquiring another property company in exchange for its own shares, B company effected a substantial increase in its issued capital which, of course, had the effect of diluting the proportion of its shares owned by A company.

Position of the Directors

Bids are usually harmful to the directors' own interests, but the clear duty of the directors is to consider the interests of the shareholders as a body, since there can be no interest of the company distinct from that of the shareholders. But though directors are trustees of some of the powers committed to them, they are not trustees for individual shareholders and may purchase their shares without disclosing pending negotiations for the purchase of the company's undertaking: *Percival v. Wright* ([1902] 2 Ch. 421); they may, however, make themselves agents for individual shareholders and liable to some of the obligations of a trustee when faced with a take-over bid: *Allen v. Hyatt* ([1914] 30 T.L.R. 444).

In some circumstances, too, the shareholders themselves may be responsible for the fraudulent misrepresentation and concealment of a director. In *Briess v. Woolley* ([1954] A.C. 333), a director was appointed agent on behalf of all shareholders to negotiate the sale of a company's shares on their behalf and not merely to accept a specific bid. It was held that in the circumstances of the case the shareholders were liable for the director's misrepresentations whereby the offerors were induced to purchase the company's shares.

The Companies Act itself is silent as to the directors' duty when confronted with a bid for the company's shares, except that Section 193 of the Act requires them to disclose any payment which is to be made to them by way of compensation for loss of office.

Generally, bidders like to obtain the sitting directors' approval of their offer before it is communicated to shareholders, but there have been some instances where directors have recommended an offer for acceptance only to find it substantially exceeded by a rival offer. Accordingly, some boards communicate to shareholders any bid which exceeds the market price of the shares together with their estimate of their break-up value. In some cases where, owing to changed conditions, profitable trading is no longer possible, the directors of a company may publicly invite bids: in others they may readily grant facilities to enable a would-be bidder to formulate an offer.

It seems clear from the report of the case of *Morgan v. Tate & Lyle Ltd* (35 T.C. 406; 33 A.T.C. 184) that the directors would be acting *ultra vires* if they spent the company's money resisting a take-over bid, though not in resisting nationalization of the company's business.

Company Law in Nigeria

by R. H. PARKER, B.Sc.(Econ.), A.C.A., Lagos

THE number of companies incorporated in Nigeria is increasing steadily and there seems every likelihood that this is a trend which will continue. At present literature on the subject, apart from the actual legislation itself, is apparently non-existent. It is the intention in this short article only to bring out the more important differences from current law and practice in the United Kingdom.

Basis of the Law

The basis of company law in Nigeria is the Companies Ordinance of 1922 as amended in 1929, 1933, 1941 and 1954. The original Ordinance followed the general lines of the United Kingdom Companies Act of 1908.

Companies with limited liability may, as in Britain, be either public or private, but there are no exempt private companies. Both public and private companies must include in their annual return (known as 'Form E') a statement in the form of a balance sheet. In this respect Nigerian law is more strict than that of the United Kingdom where, of course, exempt private companies do not have to file a balance sheet though it may be mentioned that private companies in Nigeria have only had to do so since the Companies (Amendment) Ordinance, 1954, was introduced. On the other hand, in Nigeria the law specifically states that 'the balance sheet need not include a statement of profit and loss'.

There is no equivalent of the Eighth Schedule. Section 27 (3) of the Ordinance merely provides that the balance sheet must be audited by the

company's auditors, and must contain a summary of the share capital, liabilities and assets, giving such particulars as will disclose the general nature of the liabilities and assets, and how the values of the fixed assets have been arrived at.

The auditors are required to report whether or not they have obtained all the information and explanations they have required and whether, in their opinion, the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company (Section 113). A director or officer of the company may not be appointed its auditor (Section 112 (3)), but the auditor need not be a member of a recognized professional body of accountants.

Curious Points

There are two curious points about meetings of shareholders. By Section 65 a general meeting of the company must be held once at least in every calendar year. The saving provision of Section 131 (1) of the United Kingdom Companies Act of 1948 that so long as a company holds its first annual general meeting within eighteen months of its incorporation, it need not hold it in the year of its incorporation or in the following year, does not, however, apply in Nigeria. In theory, therefore, a company incorporated on December 30th, 1957, ought to hold its first annual general meeting not later than December 31st, 1957! In practice it is understood that a company incorporated in November or December need not hold an annual general meeting during the calendar year of its incorporation.

Under Nigerian law all companies (not only public companies as in the United Kingdom) must hold a statutory meeting (Section 66). Only public companies, however, are required to place a statutory report before the shareholders. It is curious that private companies should be compelled to hold a purely formal meeting at which no business need be transacted.

Seven Days' Notice

Meetings of a company may be called by seven days' notice in writing, but this is subject to any regulations contained in the articles of association (Section 68). This may be contrasted with Section 133 of the 1948 Act which provides that at least twenty-one days' notice must be given of an annual general meeting and at least fourteen days' notice of other meetings of the company, and that any regulation to the contrary in the articles is void.

As in the United Kingdom, the law of Nigeria provides for three types of resolutions – ordinary, extraordinary and special. Two meetings are necessary in Nigeria for a special resolution: one to pass it and a second, held after an interval of not less than fourteen days nor more than one month, in order to confirm it (Section 70 (2)). Shares cannot be subdivided except by special resolution (Section 42 (2)). If Section 41 of the Nigerian Table A has not been modified, an extraordinary resolution is necessary to increase the share capital. In the United Kingdom, of course, both these matters can be dealt with by an ordinary resolution.

Companies Incorporated outside Nigeria

Finally, mention may be made of the regulations regarding companies incorporated outside Nigeria contained in Section 233 of the Ordinance. Every such company must, within six weeks from the establishment of a place of business in Nigeria, file with the Registrar of Companies:

(*a*) a certified copy of its charter, statutes or memorandum and articles, or other instrument constituting or defining its constitution and, if the instrument is not written in the English language, a certified translation thereof;

(*b*) a list of the directors of the company;

(*c*) the names and addresses of some one or more persons resident in Nigeria authorized to accept on behalf of the company service of process and any notices required to be served on the company.

Notice of any alteration in the above particulars must also be filed as they occur. The balance sheet of the company (not that of the Nigerian branch) must also be filed annually.

Every such company which uses the word 'limited' as part of its name must in every prospectus inviting subscriptions for its shares or debentures in Nigeria state the country in which the company is incorporated; it is also required to conspicuously exhibit on every place where it carries on business in Nigeria the name of the company and the country in which the company is incorporated; and the name of the company and of the country in which it is incorporated must be stated in legible characters in all billheads and letter-paper, and in all notices, advertisements and other official publications of the company.

INTERNAL AUDIT AND STOCK CONTROL

Where Full-time Checkers are Employed

by W. J. SMITH, C.A.
European Regional Vice-President, Institute of Internal Auditors

THE general principles of inventory audit are well known and established but there is little, if any, textbook reference to the subject of stores-audit in an organization that employs full-time stock checkers in the system of stock control of raw materials, stores, supplies, work in progress and finished goods.

There is an increasing tendency in business organizations to plan stock verification on a continuous basis rather than to incur the disadvantages of a year-end check and the employment of a team of full-time stock checkers is not uncommon.

To some extent internal audit is interrelated with the work of stock checkers and, although it is not generally accepted that stock-taking is an audit function, the strengthening of inventory control by the employment of stock checkers largely frees the internal auditor from a good deal of detailed checking which he may otherwise consider desirable if not, in fact, necessary.

Inventory control, in its broadest terms, may be defined as an internal check system employed to guard against irregularities and to ensure that the information provided in relation to inventories is basically sound and reliable. The internal auditor must satisfy himself, *inter alia*, that:

(1) Adequate records are maintained to ensure correct stock levels in relation to requirements.
(2) Requirements are properly appraised.
(3) Safeguards are employed to prevent irregularities and deterioration of stocks.
(4) Information produced for costing and statistics is basically sound and reliable.
(5) Inventories are correctly evaluated in financial statements.

It is in satisfaction of (1), (3) and (5) of these considerations that stock checkers can most usefully be employed. In costing and statistics the stock checkers will not usually contribute much, if anything, by way of internal check and these aspects are not dealt with in the scope of this paper.

A paper presented at a meeting of the Manchester Chapter of The Institute of Internal Auditors on September 16th, 1958.

Mr W. J. Smith

Stock Checking

The measure of internal check provided by the stock checkers leads to an examination of their function to assess the degree of reliability that can reasonably be assumed.

At the outset it is desirable that the internal auditor be consulted in the building up of a stock-checking team. The size of the job must be measured with some care; the various types of stores etc. held in stock must be reviewed, first on a broad basis, and then categorized with a view to determining the frequency of check that is desirable and agreeable to audit. At this early planning stage it will usually be found, for example, that it is uneconomic to subject small items of consumable stores to a frequent and detailed check and the cost of this checking should be measured against the benefits that will accrue. On the other hand, consideration should be given to a reasonably high frequency in the check of those categories of stores that are of an 'attractive' nature and consequently subject to pilferage.

When check cycles are established, an assessment is possible of the number of units to be checked in the course of a year and this information is material in determining the number of checkers that are required. The terms of reference for stock checking should ideally provide for implementation of a planned programme including:

(1) The physical count and list-out of stock items.
(2) Comparison of the physical with recorded stock holdings.
(3) Preparation of discrepancy lists.
(4) Investigation of discrepancies and obtaining approval for adjustment of stock records.
(5) Periodic review and analysis of the causes of discrepancy so that any weaknesses in procedure may be eradicated.
(6) Review of stock-holdings in relation to the authorized maximum and minimum holdings and reporting thereon.
(7) Preparation and submission of periodic reports to show progress in relation to set target.

In the investigation of discrepancies it will be

STOCK-CHECKING SHEET

Location: *Date:*

Stores Group: *Serial No.*

Obverse

Item No.	Part No. / Code Ref:	Description	Unit of Issue	Physical Stock Quantity	Stock Card Balance	Unit Price	Surplus		Deficient		Condition of Stock
							Qty.	Value	Qty.	Value	

Physical Stock taken by:

Stock Card Balance Recorded by: *Scrutinized by:* *Date:*

Reverse

Item No.	Report on Investigation			Investigated by	Remarks and Signature of Authorizing Official
	Hours Spent	Causes	Person Responsible		

necessary to check the appropriate stock-record cards for arithmetical accuracy, and a further beneficial test check of the record cards can be made by reference to requisitions, delivery notes and goods received notes.

The stock checkers should be well qualified in stores handling and procedures and, in carrying out their routine checking, they will be able to comment usefully on storage methods with particular reference to space usage, the condition of stocks, and the avoidance of stock deterioration.

In practice it is found advisable to introduce a standard printed form for the recording of physical counts and record figures so that discrepancies may be immediately apparent. Suggested rulings for the two sides of a stock checking sheet are shown in the accompanying illustration.

Information from the stock-checking sheet should be summarized on a period return of stock checked. The period would be decided by the requirements of the organization but it is not recommended that the return should be submitted less frequently than at the end of each quarter. A suggested ruling is illustrated.

The direction of stock-checking activities should be the responsibility of a senior stores official divorced from the day-to-day running of the stores, and the quarterly reports should be submitted to an official at management level.

Internal Audit

The system of stock-checking that has been outlined, is designed to satisfy the requirements of physical control. With direction and reporting of the stock-checking activities at a sufficiently high level, the internal auditor need not then enter too deeply into the more technical details. He should, however, review constantly the frequency of checking and, by study of the stock-checking sheets, satisfy himself that discrepancies are properly accepted within the approval limits before adjustment is made to the stock records. By analysing the discrepancies under value and cause, he will ascertain the directions, in which corrective action may be required. He may, on occasion, consider it advisable to carry out further cross-sectional stock checks to confirm that the checking programme is being implemented. However, an extensive duplication of checking should not generally be necessary.

There are a variety of additional tests which the internal auditor should advisably apply to prove correct pricing and documentation and adherence to the regulations. One such check that is recommended is the tracing of selected documents, e.g. requisitions, delivery notes and goods received notes from their point of origin to ultimate disposal; another involves attendance at receiving bays to observe the checking-in of goods received; and still another, attendance at issue points where issues should be made only against approved documents.

It should not be overlooked that stock checkers

QUARTERLY RETURN OF STOCK CHECKED

Location:
Quarter Ended:

Stores	No of Items		Stock Items Checked			Number and Value of Discrepancies											
						Surplus						Deficient					
						Current Quarter		Previous Total		Total to Date		Current Quarter		Previous Total		Total to Date	
Group	In Stock	For Annual Check	Current Quarter	Previous Total	Total to Date	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value

Certified that this is a correct statement of stock checked and discrepancy findings.

..................Date..................Approved by..........Date..........

Responsible Physical Stockholder Senior Official in Charge

....

will generally be required to concentrate largely on work of physical verification to prove recorded balances. Internal audit should provide reasonable assurance that the records are accurate and reliable.

A further point for consideration is the assessment of stores requirements. It is admittedly not easy for an internal auditor to criticize the authorized levels of stockholdings but a comparison of usage with the stockholdings can usefully be made in selected cases. In particular, attention can be directed to stock items showing reduced demand which may indicate that capital is unnecessarily tied up and that storage space can be freed.

A controversial point arises from a school of thought that favours stock-checking by suitably qualified internal audit staff. Against this it may, I suggest, be justifiably argued that a stores department should be responsible for the safeguarding and recording of stores in the same way that a cashier is responsible for his cash. There is also the accepted principle that an internal auditor's review and appraisal does not in any way relieve other persons in the organization of the responsibilities assigned to them.

Conclusion

The procedure outlined gives reasonable assurance that stock record cards may be accepted as accurately reflecting the physical stockholdings; that steps have been taken to measure stockholdings against requirements; that there has been adequate appraisal of requirements; that safeguards against irregularities and deterioration have been applied; and that prices have been verified by test. Additionally, tests may be applied to the documentation of receipts and issues, and the relative movement documents may be tested to ensure their accuracy.

The combined efforts of internal audit and stock-checking thus ensure accuracy in the basic documents from which cost and statistical returns and the evaluated stock inventories are produced.

Weekly Notes

Investment in Eire

THE third report of the Capital Investment Committee completes the present cycle of Government White Papers on economic matters issued recently by the Government of Eire.

The Committee recommends that the Taxation Commission should be asked to report as a matter of urgency on the possibility of encouraging enterprise by changes in taxation, on making adjustments to the tax system to increase the incentive to invest savings at home and to repatriate past savings. There are also recommendations for reviewing and strengthening the machinery of government for preparing and coordinating economic policy. They think that a programme of economic development should be prepared to find out and to implement productive investment.

On agricultural policy the Committee favours development by differential rates of interest on loans, and it considers that projects undertaken for economic reasons should not be distorted to achieve non-economic ends. On land improvement, fertilizing and the provision of shelter belts is advocated.

The report points out that investment per head in Eire has been smaller than in most countries, and that too small a part of newly-created capital has been in productive enterprises. There is also blunt criticism of the lack of enterprise as a characteristic of Irish life. There is, it says, a strong desire for security and an unwillingness to take risks. As a document, therefore, the report is forthright in its analysis of Eire's problem in raising output per head. In sum, the Committee are saying that capital is scarce in a country which suffers from a declining population based on agriculture, and that capital resources are squandered in uneconomic enterprises in the form of subsidies and social projects.

Hidden Unemployment

AT a time when public attention is increasingly drawn to the level of unemployment, discussion is also increasing on 'hidden unemployment'. The latest discussion on this last subject has come from the columns of *The Times*, where Mr H. A. Turner, of the Faculty of Economic and Social Studies in Manchester University, has drawn attention to certain misleading elements in the official unemployment figures. He pointed out that short-time working and the continuing practice of work-spreading by employers, all help to make the employment situation, in terms of statistics, probably look better than it really is.

This question is an old problem in fashionable dress. Granted the will to maintain full employment, the unwillingness of the Government to let nationalized industries react to changing market conditions, and the reluctance of private industry to let skilled men go, because they may never come back, pockets of concealed unemployment are bound to arise. They take the form of some type of under-employment. In the nationalized industries it takes the form of producing heavily for stock, as in the case of the coal industry which is at present building up large tonnages of small coal in the hope that the upswing of the trade cycle will move them in due course. Private

industry can carry semi-employed men and women provided the price position for its goods is soft enough, and the customer can be persuaded to pay the price of low productivity. It is significant that the Lancashire cotton textile industry is not in such a lush position, and there employment continues to fall. Industries which have a significant export trade are less able to indulge in work-spreading than those which serve mainly the home market. The old problem, which has dogged this country since the war, therefore continues to exist even in a period of deflation. In spite of pressure to deflate, prices are kept high in 'protected' industries, while labour is slow to move from one industry to another. It is only, therefore, a question of time before the paradox receives a public airing that before we can have less unemployment, we must admit to having more than appears.

Good Intentions

THE Co-operative Congress at its annual meeting at Blackpool last week has supported in principle the idea of extensive amalgamation of retail societies. It is quite clear that the measure of agreement on this issue, which was in no sense spectacular, was achieved only as a defensive reaction against the competition of multiple shops. Since amalgamations will have to be voluntary, and since the opposition to amalgamation comprises a large minority at the moment, progress is not likely to be very rapid.

The resolution favouring amalgamation was part of the central executives' proposal to accept the findings of the Gaitskell Commission. This commission suggested that the 950 retail societies should be reduced to between 200 and 300, the aim being to establish societies big enough to operate a chain of at least fifteen grocery shops.

Even more cautious was the approach to the problem of efficient management. The commission was forthright in its views about the quality of management in Co-operatives, which they considered ranged from the excellent to the deplorable. It is apparent to the outsider that the question of efficient management is closely related to the size of the societies, but so far as the Co-operative Movement is concerned, there might be even more emotional distaste for change on management questions than on actual amalgamation. The surprise move of this conference was the insistence (against the wishes of the Executive) that the question of starting a retail development society to run a chain of retail stores should be left to the retail societies. The Executive would have preferred to see the wholesale societies handle this matter.

Amalgamation of Co-operative Societies is an old theme, and some progress has been made. The critical issue for the Movement is the present rate of evolution in retailing methods. It is fashionable to single out the Co-operative Societies for criticism, but they are in a very similar position to a large number of independent shops and some of the less efficient department stores. The urge of the public to buy extensively advertised branded products, made and marketed on a mass-production basis, continues to grow rapidly. The tendency is related to the public's increased partiality for impulse buying of attractively displayed merchandise. These buying habits are being stimulated by attractive packaging and low prices – as can be seen from the growth of self-service shops and the erratic but marked growth of supermarkets. This is a long way away from the philosophy of the 'divi' and a world away from the political conceptions of co-operation which came from Rochdale.

Industrial Output Drops

DURING October, industrial production fell to about 103·5 compared with 104 in September, according to the official index compiled by the Board of Trade. It was $3\frac{1}{2}$ per cent below the level of the index in the same month a year before, and October 1957 was a low month owing to Asian 'flu.

The main cause of the sluggish performance of the index continues to be a recession in the capital goods industries. In October, steel output was 17 per cent below the level for the same month in 1957. On the other hand, construction activity has been maintained, thanks to private house building and the road programme.

Among consumer goods, the motor-car industry continued to operate at a high level, while the manufacturers of household equipment were still benefiting from the end of hire-purchase controls, a buoyancy which is likely to carry them through until the Christmas trade begins.

At this stage in the trade cycle, the immediate past is of limited significance. Everyone knows that output was falling and unemployment was rising over the summer. If this had not been so, the decision to relax the credit squeeze and to stimulate capital investment would have made little sense. The significant point is now the question of time. Nothing the Government can do is likely to affect the trend of economic activity between now and the end of the year, unless business men can be persuaded to increase their purchases for stock. The credit squeeze has been eased, purchase of consumer goods in particular has been encouraged, and capital outlay by the nationalized industries is to be boosted. There has been a small but significant improvement in factory plans approved, and the Government plans to help house-purchasing may give a stimulus to this aspect of capital investment. Not much in this direction is, however, likely to develop before 1959.

The pattern of the Government's economic policy through the winter is now, in fact, set, and it will be early spring before its success or failure can be assessed. Recent figures of exports are encouraging. If everything goes right, therefore, the Christmas buying rush should be followed by increased general activity in January and February, an increase in which the capital goods industries will begin to play a part.

Finance and Commerce

From South Africa

THIS week's reprint features the accounts of The Clydesdale (Transvaal) Collieries Ltd, a company incorporated in the Union of South Africa but having an investment interest in the United Kingdom. The balance sheet this year has been presented in a new form which – the directors hope – will make it 'more informative and easier to follow'.

Whereas previously, states the chairman, Mr E. M. Brothers, the accounts were framed to show capital and reserves separately from the company's borrowings for capital expenditure, it is now considered advisable to show total funds expended on fixed assets, and how these funds have been partly derived from the company's profits.

This, he points out, has required a regrouping of old balances and the position is explained in the notes to the accounts. Note 5, showing adjustments to the profit and loss account made for the purpose of showing the extent of profits expended on fixed assets, is included in the reprint.

The accounts have, in general, been drawn up in accordance with past practice. No account is taken of the exhaustion of coal seams, of the amortization of development expenditure, or of stocks of coal on hand and in transit on accounting date.

Elimination

IT is not so very long ago that the balance carried forward in a profit and loss account was shown at the foot of the liabilities side of the balance sheet separated by all the other items from the capital at the top. Also, the profit and loss balance shown was subject to the appropriations sanctioned at the annual meeting; unless, of course, the profit and loss was 'in the red' in which case it became an 'asset'.

The modern balance sheet puts the balance in its proper context with capital and reserves and shows it after the appropriations. The directors of Harris Lebus Ltd, the furniture makers, have this year gone a step further and eliminated the balance altogether. General reserve and unappropriated profit, previously shown under revenue reserves, have been amalgamated in one item: profits retained in the business.

The board's view is that in accordance with modern accounting technique, there is no useful distinction to be made between undistributed profits retained by way of general reserve and those carried forward as a balance on the profit and loss account. Sir Herman Lebus, the chairman, feels that this gives a clearer statement of the position. The profit and loss account, he says, shows immediately the amount of profit available after taxation, how much has been distributed, and the total added to the amount of profits retained in the business.

Similar Step

A SOMEWHAT similar accounting step has been taken in this year's accounts of Capper Pass & Son Ltd, smelters and refiners of non-ferrous metals. There is no longer a profit and loss account balance in the balance sheet. It is all summed up under revenue reserves and surplus which shows a market reserve of £305,000 and a general reserve of £1,121,413.

This change is referred to in the statement with the accounts by the chairman, Mr A. D. Pass, who points out that general reserve, replacement reserve, investment reserve and profit and loss account have been combined together under the heading general reserve. This, he says, 'justly defines the nature of these moneys'.

Market reserve covers metal prices and has been debited this year with £170,000 to set off a fall. Mr Pass says that as smelters and refiners and not miners, they can afford, as far as internal affairs are concerned, to adopt a somewhat detached attitude to the price of metals. Nevertheless, he goes on, the company is an integral part of the non-ferrous metal trade and what is bad for the trade as a whole is bad for the company.

New Unit Trust

THIS week's highly-successful launching of British Shareholders Trust marks the entry of the City's leading merchant banking firms into the unit trust field. British Shareholders Trust, which offered five million units at 10s each, is managed by Philip Hill, Higginson & Co Ltd. The investments of the Trust will be chosen by the managers in consultation with an investment council under the chairmanship of Mr W. H. Lawson, immediate Past President of The Institute of Chartered Accountants in England and Wales.

The Trust's portfolio will be heavily weighted in favour of industrial equities and investments are permitted in a range of some 120 securities. A choice of fifty to sixty of these first-class equities will provide the initial portfolio along with Government stocks.

In the past two years there has been a major revival of public interest in the unit trust movement and the small investor has belatedly recognized the benefit of this form of investment.

Other leading merchant banking firms are known to be making arrangements for entering the unit trust field. Robert Fleming & Co is to launch a trust within the next two months.

Next Week's Reprint

The reprint in next week's issue will be from the accounts of Remploy Ltd.

PROFIT AND LOSS ACCOUNT

For the Year ended 30th June, 1958

THE CLYDESDALE (TRANSVAAL) COLLIERIES, LIMITED

1957 £	1957 £		1958 £	1958 £
	584,379	**Net Income from Coal Winning**		681,192
	22,333	Interest, Rents and Sundry Revenue (Net)		16,822
	210	Income from Trade Investments		308
	—	Surplus on sale of Fixed Assets		1,051
	8,814	Net Income from Farming Operations		14,342
	615,736			713,715
		Deduct:		
41,214		Administration Expenses	46,646	
27,158		Interest on Debentures and Notes	24,838	
12,637		Amounts written off Collieries Equipment and Farm Equipment	11,742	
60,553	141,562	Equipment Replacements (See Note 8)*	67,810	151,036
	474,174	**PROFIT BEFORE TAXATION**		562,679
		Deduct:		
	121,500	Union Government Taxation		143,500
	352,674	**PROFIT AFTER TAXATION**		419,179
	384,680	Unappropriated Profit 30th June, 1957 (After adjusting provision for taxation)		295,223
	737,354			714,402
		Appropriations and Distributions:		
	—	Additional Outstanding Liability under Pneumoconiosis Act No. 57 of 1956		541
	204,942	Transfer to Profits Expended on Fixed Assets Account (See Note 5)		406,951
	237,009	Dividends:		265,928
75,000		No. 95 of 10 per cent. 31st December, 1957	81,005	
162,009		No. 96 of 22½ per cent. 30th June, 1958	184,923	
	£295,403	**UNAPPROPRIATED PROFIT** 30th June, 1958, per Balance Sheet (See Note 5)		£40,982

* *Not reproduced.* – Editor.

*Notes on the Accounts**

5. PROFITS EXPENDED ON FIXED ASSETS

In order to show clearly the extent of profits expended on fixed assets, the following adjustments of the Profit and Loss Account balance at 30th June, 1957, were made during the year ended 30th June, 1958:

Balance at 30th June, 1957		£400,345
Transferred from:		
Reserve for Loan Portion of Union Government Taxation—1953		5,106
Debenture Redemption Reserve		150,000
Provision for Equipment Replacements		60,787
		616,238
Transferred to Profits expended on Fixed Assets Account:		
Expended prior to 30th June, 1956	115,893	
Expended in year ended 30th June, 1957	204,942	320,835
Adjusted balance of Profit and Loss Account at 30th June, 1957		£295,403

The amount of Profits expended on Fixed Assets is therefore made up as follows:

Expended to 30th June, 1957, as above	£320,835
Expended from current and past profits during year ended 30th June, 1958, per Profit and Loss Account	406,951
	£727,786

9. FIXED ASSETS

The fixed assets which are stated as being at cost, net book value or valuation less disposals and amounts written off are summarised below:—

	At Cost	At Net Book Value or Valuation 1st July, 1953, Less Disposals	Amounts written off	
Property, Coal Mining and Other Rights	£12,950	62,257	—	75,207
	(12,950)	(65,257)	(—)	(78,207)
Collieries Development, Shafts Buildings and Equipment	2,883,784	46,356	17,891	2,912,249
	(2,276,576)	(46,356)	(14,171)	(2,308,761)
	£2,896,734	108,613	17,891	2,987,456
	(2,289,526)	(111,613)	(14,171)	(2,386,968)
Farm Buildings, Improvements and Equipment	£36,067	11,474	23,024	24,517
	(31,368)	(14,524)	(20,410)	(25,482)

The corresponding amounts for the preceding year are shown in parenthesis.

**Part only reproduced.* – Editor.

BALANCE SHEET

At 30th June, 1958

THE CLYDESDALE (TRANSVAAL) COLLIERIES, LIMITED

1957 £	1957 £		1958 £	1958 £
		CAPITAL (See Notes 2 and 3)*		
1,000,000		Authorised—4,000,000 shares of 5s. each ..	1,000,000	
	810,047	Issued— 3,287,523 units of stock of 5s. each, fully paid		821,881
19,087		**CAPITAL RESERVE**	19,087	
976,682		**SHARE PREMIUM** (See Note 4)*	1,010,125	
320,835		**PROFITS EXPENDED ON FIXED ASSETS** (See Note 5)	727,786	
	1,316,604			1,756,998
	250,000	**REGISTERED REDEEMABLE DEBENTURES** (See Note 6)*		450,000
	120,252	**REDEEMABLE CONVERTIBLE NOTES** (See Note 7)*		74,976
	2,496,903	**Total Funds Expended on Fixed Assets**		3,103,855
	295,403	**PROFIT AND LOSS ACCOUNT**		40,982
		CURRENT LIABILITIES		
130,286		Creditors and Accrued Charges	142,323	
121,500		Taxation	143,500	
162,821		Stockholders for Dividends	185,903	
	414,607			471,726
	£3,206,913			£3,616,563

The Notes attached hereto form an integral part of these Accounts.

1957 £	1957 £		1958 £	1958 £
		FIXED ASSETS		
	2,386,968	Property, Coal Mining and other Rights, Collieries Development, Shafts, Buildings and Equipment at cost, net book value or valuation, less disposals and amounts written off (See Note 9)		2,987,456
	25,482	Farm Buildings, Improvements and Equipment at cost or valuation less disposals and amounts written off (See Note 9)		24,517
		Interest in Subsidiary Companies (See Note 10):*		
15,003		Shares at cost	15,004	
61,770		Loans	66,651	
	76,773			81,655
	7,680	Trade Investments at cost		10,227
	2,496,903			3,103,855
		CURRENT ASSETS		
244,816		Stores and Materials	223,703	
10,657		Farm Livestock	5,939	
123,695		Debtors	184,299	
164,500		Loan at call with The South African and General Investment and Trust Company Limited	60,000	
166,342		Cash at Bankers and on Hand	38,767	
	710,010			512,708
	£3,206,913			£3,616,563

THE SOUTH AFRICAN AND GENERAL INVESTMENT AND TRUST COMPANY, LIMITED
Secretaries

Per GEO. T. OATS

On behalf of the Board,

E. M. BROTHERS
E. J. G. ROY
Directors

* *Not reproduced.* – Editor.

CITY NOTES

THE intricacies of the tussle for control of the British Aluminium Co have provided the keenest point of City interest this past week, but the deflection of interest from the normal business of investment has not completely overshadowed the fact that investment opinion is now more inclined to make note of present industrial problems.

The many extremely cautious statements on the immediate outlook made by company chairmen in a wide range of industry have served to bring a less buoyant tone to the industrial equity market. Prices have tended to ease back from their recent peaks.

While the equity market has turned easier, gilt-edged stocks have hardened. The Treasury's latest funding operation in which some £350 million of short-dated stock is being retired has been well received. The Treasury's policy, in the past two years, of selling long-dated stocks and taking short-dated bonds off the market has successfully reduced the heavy weight of outstanding short-term borrowing.

A further increase in gold and dollar reserves in November and the conclusion that for the first time for three years the end-year dollar loan payment commitments will be met has provided further evidence of the improvement in the external economy. It remains to be seen how the increase in home demand for consumer goods and the increase of competition in export markets, particularly in Europe, will affect the external earnings position in the coming months.

RATES AND PRICES

Closing prices, Wednesday, December 3rd, 1958

Bank Rate

Feb. 16, 1956	5½%	May 22, 1958	5½%
Feb. 7, 1957	5%	June 19, 1958	5%
Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%

Treasury Bills

Sept. 26	£3 12*s* 6·10*d*%	Oct. 31	£3 11*d* 8·23*d*%
Oct. 3	£3 14*s* 1·39*d*%	Nov. 7	£3 11*s* 7·04*d*%
Oct. 10	£3 13*s* 0·72*d*%	Nov. 14	£3 11*s* 0·97*d*%
Oct. 17	£3 12*s* 3·08*d*%	Nov. 21	£3 8*s* 4·68*d*%
Oct. 24	£3 13*s* 7·94*d*%	Nov. 28	£3 6*s* 1·20*d*%

Money Rates

Day to day	2⅜–3¼%	*Bank Bills*	
7 days	3–3⅜%	2 months	3 7/16–3½%
Fine Trade Bills		3 months	3 7/16–3½%
3 months	4¼–5%	4 months	3 7/16–3½%
4 months	4¼–5%	6 months	3 7/16–3 9/16%
6 months	4½–5¼%		

Foreign Exchanges

New York	2·80¼–5/16	Frankfurt	11·69¾–⅞
Montreal	2·70⅞–·71	Milan	1746–¼
Amsterdam	10·58⅛–⅜	Oslo	20·00⅞–·01⅛
Brussels	139·45–·50	Paris	1178⅜–⅝
Copenhagen	19·33⅞–·34⅛	Zurich	12·23¾–⅞

Gilt-edged

Consols 2½%	50¾	Funding 4% 60–90	89
Consols 4%	74⅛	Savings 2½% 64–67	83
War Loan 3½%	65⅝	Savings 3% 55–65	89¼
Conversion 3½%	65¾	Savings 3% 60–70	79¾
Conversion 3½% 1969	86⅛	Savings 3% 65–75	74⅛
Exchequer 5½% 1966	103⅜	Treasury 2½%	49¼
Funding 3% 66–68	83¾	Treasury 3½% 77–80	75⅞
Funding 3% 59–69	82⅝	Treasury 3½% 79–81	76⅜
Funding 3½% 99–04	72¼	Victory 4%	96

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

London and District Society: New Groups

SIR, – You will be aware that the London and District Society serves a large area extending from Oxford to Southend, and from the north of Bedford to Guildford in Surrey. In order that the needs of members of the Institute who live in these areas may be met, the London and District Society has encouraged the formation of local groups. Such groups now exist in Reading and district, Southend, Oxfordshire and in Beds., Bucks. and Herts. We believe that they are successful and are welcomed by members in the area, and this encourages us to hope that it may be possible to form further groups in other districts.

It is difficult for members of the London and District Committee who have no local knowledge to judge to what extent there is a demand for the formation of other groups in areas such as Chelmsford and neighbourhood or in Surrey serving Croydon, Dorking, Guildford, etc. There may well be other centres where a group would be welcome.

The purpose of this letter is to invite members of the Institute who are not at present served by a local group and who would welcome the formation of one, to write to our Secretary, Mr J. W. G. Cocke, Bank Chambers, 232/238 Bishopsgate, London, EC2. If there is a sufficient demand from any particular area, we on the London and District Committee will do what we can to meet the need.

I am,
Yours truly,
E. KENNETH WRIGHT,
Chairman, GROUPS SUBCOMMITTEE,
LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS.

London, EC.

Accounts from Incomplete Records

SIR, – I do not wish to defend the excess of zeal shown by a young Inspector just come up from Somerset (although I sometimes wonder why a quality so admired in coal-miners, doctors or school-teachers should so commonly be deprecated in Civil Servants). But I think 'L. A.' (November 29th issue)

is going a little too far when he suggests that 'rounding off' of figures based on incomplete records tends to cast doubt upon an accountant's integrity.

In building up the cash account of small businesses, such as the café mentioned in Mr Barradell's article, in your issue of November 8th, the accountant normally has to obtain at least four estimates: (1) unrecorded cash purchases; (2) unrecorded cash expenses; (3) normal cash drawings; (4) extra drawings for holidays, presents, Christmas, etc.

In my experience the fourth point rarely receives adequate attention. But apart from this, let us assume an absolutely honest and objective client estimates the first three at, say, £4–£5 per week, £3–£4 per week and £7–£8 per week. What is an accountant of the highest integrity to do? Perhaps after questioning the client closely, considering gross profit rates, style of living and other relevant factors, he finds no reason to doubt the estimates.

Is he to adopt the mean of £4 10*s*, £3 10*s*, and £7 10*s* per week respectively, or is he to give his client the benefit of the doubt and put down £5, £4 and £7 per week? Is it not his professional duty to his client to see that the client receives the benefit of any honest doubt?

But what proportion of taxpayers are absolutely honest and objective when making such estimates? And apart from conscious distortion of the truth, does not all human experience point to the probability of unconscious subjective distortion of all such estimates?

I suggest that there are very few cases in which 'rounding up' results in any injustice to the taxpayer.

None the less I deplore the practice for a totally different reason. It seems to me that Inspectors who habitually 'round up' are condoning, and therefore encouraging, the habit of sending in accounts year after year based on incomplete records. The best of accountants may have to base the first or second year's accounts of a new client on incomplete records; but if he is a man of ability and character, he won't carry on indefinitely in such a way. It is not only the Revenue - and therefore all honest taxpayers - who suffer as a result of the chronic 'inability' of so many taxpayers to keep proper records: qualified accountants lose business to 'quacks' and, even among the qualified men, there is more than a tendency for the conscientious practitioners to lose clients to others not so scrupulous.

Yours faithfully,
London, E18. V. P. GOOK.

French Student Seeks English Commercial Experience

SIR, – A young Frenchman, aged 19, studying for a commercial degree at Rouen University is expected, as part of his training, to spend some three months (July, August, September 1959) in an administrative office of an English manufacturing company, on which thereafter he has to write a thesis having regard to the history and activities of the company; its economic and financial aspects; its place in the market from a national and international point of view, together with details of his service as a probationer.

It would be greatly appreciated if any company willing to afford the student these facilities (without remuneration) would communicate with me when I shall be glad to elaborate on these details.

Yours faithfully,
GEORGE E. SIMPSON, F.C.A.
14 Bryanston Street,
London, W1.

P.A.Y.E. and National Insurance

SIR, – Mr Hayman (November 29th issue) deserves support in his plea for a practical solution to this problem; however, he is well 'adrift' when he says many local authorities have 'established the practice' of publishing statements of 'where the money goes' on their rate demand notes.

As most readers will know, this is a *statutory requirement* under the Rating and Valuation Act of 1925!

Yours faithfully,
Rugby. W. P. STANLEY WOOD.

Paying it with Poetry

SIR, – We recently sent out two bills to a client, one for partnership accounts and the other for his own affairs, and had occasion to mention that our charges had had to be increased. A few days later we received two cheques in settlement, accompanied by the following lines:

Dear Sirs,
Don't worry *re* your bills
I've tasted many nastier pills!
My own account I pay with pleasure
Though my last bank statement's none too pretty!
The joint account we'll pay at leisure
When summat more is in the kitty.
For services rendered I like to pay
When account is tendered. – W. L. A.
P.S.
In case perchance you have a mind
Don't bother to reply in kind.
Alas, 'tis sad, but very true,
That genius is but given to few.

The challenge in the last few lines was too good to miss so we sent the following reply:

We thank you for your verses neat
And cheques, for which we send receipt.
You say 'Do not reply in rhyme'
To do so will of course take time.
But such a ploy is time well spent
For which we shall not charge a cent.
'Tis good to cast away dull care,
And now and then let down one's hair.
And so, dear Sir, we say adieu
to your partner and to you.'

Such lighter incidents enliven an exacting profession.

Yours faithfully,
FIFTEEN BY EIGHTEEN.

ELECTRONIC COMPUTER EXHIBITION

SUCCESSFUL EVENT AT OLYMPIA

THE development of electronics and automation over the past decade has been nothing short of remarkable, and the present application of computers for accounting purposes, statistical analysis and production planning was amply demonstrated at Olympia during the past week. The Electronic Computer Exhibition which ended on Thursday, was the first of its kind to be held in Europe. It was visited by numerous delegates from overseas including three scientists from the Institute of Automation and Telemechanics of Moscow. There were displays by forty-three manufacturers: details of some of the exhibits were given in our issue of November 22nd.

Opening the Exhibition, the Lord Mayor of London, Alderman Sir Harold Gillett, M.C., F.C.A., said:

It is, I hope, appropriate that it should fall to a chartered accountant Lord Mayor of London to have the honour of being invited to open the Electronic Computer Exhibition.

This is the most comprehensive exhibition of electronic computers ever held. You will see both analogue and digital computers and exhibits of all ancillary equipment needed to enable a computer to be used.

In recent years the skill and inventiveness of scientists and technologists have given us new methods, new equipment and new tools, which are so much in advance of those they are displacing, that we are living in the age of the second industrial revolution. Therefore most of the new techniques rely upon the computer. The computer is able to work at a speed far in excess of anything known previously; thus a great deal of drudgery can be abolished. Of more importance, it makes possible many operations and calculations which would not previously have been attempted.

Ace, Deuce, Era, Hec, Leo, Mercury, Pegasus, Perseus and Space are names or words with which we have long been familiar. Today these words cause us to think of the computer, and it may be that the rising generation will in time forget that an ace is the highest card of the suit, or that deuce is a state of the score in a game of tennis! To mention two others, it seems to me that the names of the messenger of the gods and winged horse which caused a fountain to play, are apt names for computers. If only these things had been in existence fifty years ago when I was an articled clerk, I should be a much younger-looking man than I am today!

There are, I understand, many uses for a computer. As you are well aware, it is possible to programme a computer to create music and I have been told that someone has gone so far as to programme a computer to write his poems and his love letters. Whether it also deals with breach of promise damage I would not know.

More seriously, computers are being programmed to translate from one language into another; they are now in regular use by scientists, and they are used by the business world for industrial, commercial and accounting purposes. These are great achievements, and it does great credit to the organizers and exhibitors that here, under one roof, it is possible to see all the different types and makes of computers and their ancillary equipment.

The Lord Mayor of London, Sir Harold Gillett, M.C., F.C.A., opening the Electronic Computer Exhibition at Olympia. On the right is seated the Mayor of Hammersmith.

Integrated with the exhibition is a business computer symposium consisting of six sessions, during which experienced executives from many concerns are giving management the benefit of their own practical experience in applying electronic computer techniques to their particular problems. I think, before I close, I would like to say a word in connection with the craftsmen who make the computer machines themselves. They are examples of the great technical craftsmanship in this country to whom we owe a very great deal of gratitude.

May I wish you all every success in whatever form or manner you are individually or as organizations concerned in this outstanding exhibition.

Opening Luncheon

Speaking at the opening luncheon, Mr Vernon M. Roberts, O.B.E., B.SC., A.M.I.E.E., Chairman of the Exhibition's joint organizing committee drawn from the Electronic Engineering Association and the Office Appliance and Business Equipment Trades Association, said:

To those of us who have been responsible for organizing this first European exhibition of British electronic computers and data-processing equipment this is an exciting day, the culmination of two years' work, and a triumph for those exhibitors who have in six days installed and set to work these complicated devices in the hurly-burly atmosphere of building up an exhibition.

The overall operation is – in electrical parlance – a three-phase exercise: firstly, an international scientific symposium concerning the use of computers in relation to the mechanization of human thought. This was organized by the National Physical Laboratory and took place earlier this week; secondly, an exhibition of British electronic computers and associated input and output equipment which was formally opened today by Sir Harold Gillett; thirdly, a business computer symposium during which twenty-three papers will be presented and discussed during six sessions. . . .

Our efforts are under the patronage of H.R.H. The Duke of Edinburgh from whom we today received a telegram.

'Once for All'

The operation as far as we are concerned is a 'once for all' affair. It was conceived following a suggestion by the National Physical Laboratory via the Brunt Committee to Lord Halsbury, that British achievements in the development and application of computers to scientific and engineering and industrial problems be publicized. The National Physical Laboratory and manufacturers (belonging to two associations) accepted this challenge and have harmoniously worked together for two years to demonstrate to the world that Britain has developed and can supply equipment – backed by applicational experience to satisfy any home or export requirement.

From earliest times man has constantly endeavoured to augment his *physical* capabilities and mechanical inventions such as wheels and levers, hydraulics, steam power and electric power have increased his productivity and raised his standard of living. Over the past thirty years electronic engineering has increased more and more the scope of man's control of productivity, speed of communications and influenced our work and leisure and life. In the last decade electronic computers and associated equipment have provided man with the means of augmenting his *mental* capabilities, by solving most complicated calculations in minutes instead of hours, or hours instead of years.

Aid to Management

This new tool has enormous potential to increase productivity; to aid management; to accelerate technical and scientific progress; to reduce drudgery; and to save time and money.

These things cannot think – they are not 'electronic brains' – but they will process the results of thought and human instructions and provide an answer or revolutionize control. When electronic computers and data processing equipment is allied with servo-mechanisms and mechanical transfer you can obtain complete automation, and undoubtedly the next decade will see enormous strides in the application of these new techniques. . . .

BUSINESS COMPUTER SYMPOSIUM

EIGHTEEN COUNTRIES REPRESENTED

OVER four thousand delegates attended the Business Computer Symposium held at Olympia last Monday, Tuesday and Wednesday in connection with the Electronic Computer Exhibition. More than a hundred came from overseas; countries represented included Australia, Belgium, Czechoslovakia, Denmark, Eire, France, Germany, Holland, Hungary, India, Israel, Italy, Norway, Russia, Spain, Sweden, Switzerland and the U.S.A.

Twenty-two papers were presented at the six sessions in which senior executives from a wide range of private and State enterprises gave the benefit of their knowledge and practical experience of computers and the application of electronic data processing techniques.

The chairmen at the sessions were as follows: Monday, Session 1: The Earl of Courtown, Imperial Chemical Industries Ltd; Session 2: Mr Lewis Wright, Chairman, Scientific Advisory Committee, Trades Union Congress; Tuesday, Session 3: Sir Walter Puckey, British Institute of Management; Session 4: Sir John Simpson, C.B., Controller, H.M.S.O.; Wednesday, Session 5: The Viscount De L'Isle, V.C., P.C., D.L., M.A., A.C.A., President, Office Management Association; Session 6: Mr H. J. Furness, F.C.W.A., President, The Institute of Cost and Works Accountants.

OPENING ADDRESS

The opening address at the Symposium was given by Lord Halsbury, managing director of the National Research Development Corporation, on 'Computers: retrospect and prospect', from which are reproduced the following extracts:

Ten years ago the computer as we know it was little more than a gleam in the eye of a few pioneers. Computer-like devices had been built here and there, but each of them lacked at least one feature that we should now regard as essential. Ten years ago the number of men working creatively in this field was certainly smaller than the number of industrial firms exhibiting their products here today. Today computer engineering is a recognized branch of electronics whose practitioners must be numbered in hundreds.

The first computers of modern design did in fact come into operation in Britain. Before they did so, however, a number of computer-like machines had been in operation for some years in the United States. Shortly after they had done so modern type computers were operating there also. From the beginning there has been a steady two-way flow of technologists across the Atlantic. Competitive leads have had to be reckoned in months or weeks only, and now that the first decade has elapsed the situation is very much what it was from the beginning. Each nation has a healthy respect for its competitors' technology. . . . In this exhibition you will find a ubiquitous and healthy desire to survive by competing. I challenge you to find one more stimulating in this respect. But it is the right kind of competition based on open disclosure of product design. You will find no secrets here and no secretiveness. I have spoken much of Anglo-American achievements. To France, however, we must go for lessons in what clear thinking private enterprise can do without Government subvention. And to Italy we turn for invaluable peripheral equipment. . . .

Firm Foundation

The first generation of computers was something of an engineering miracle. It was necessary to break through a vicious circle in order to dominate their construction and operation. . . . These machines were the joint products of mathematicians and engineers, each of them dedicated to learning the hard way, each wedded to early prejudices as to what was and was not desirable to have or possible to accomplish. . . . This first generation of machines represented a firm foundation on which everything that evolved later was to be constructed.

The second generation of machines was the generation of experience. At the time when they were designed, the days of the pioneering prototype were beginning to be over. The men who designed them had designed machines before, knew what the difficulties were and how to avoid some of them by selecting what to attempt and what not to. . . . The main features of this second generation of machines were, firstly, adaptation to special purposes, and, secondly, more utilitarian logics. In terms of these features computers began to be designed for special purposes. Computers for mathematical purposes were designed with that end in view. Computers for data processing and business purposes were likewise designed for the users who intended to acquire them. In England the turnover of machines sold for business purposes now for the first time exceeds the turnover of those sold for scientific purposes.

The third generation, of which the earliest prototypes are scarcely off the stocks, is likely to carry the economics of the logic still further by making arrangements for parallel programming, micro time-sharing and break-in operations.

As speeds rise, the problem of transferring blocks of information between different storage levels tends to become of dominant importance. For unless a high degree of local autonomy can be imposed on each section of a very fast machine, the central computational part of it will tend to spend an uneconomic proportion of its time waiting for data on which to operate. Autonomous operations have, therefore, to be foreseen so that one section of a machine is per-

The Lord Mayor of London, Sir Harold Gillett, M.C., F.C.A., examines a punched card during his visit to the Exhibition.

petually catching up on the needs of another section. The need to keep these newer and faster machines fully employed leads to another conception, that of time-sharing and break-in.

Multiple Purpose Computers

The general purpose behind these conceptions is that of using a machine for multiple purposes: not multiple calculations carried out in sequence, each proceeding from start to finish in turn, but calculations interleaved with one another so that quite small time intervals elapse between part-completion of different operations. Thus, for example, a computer engaged on payroll calculations might suspend its calculations on receipt of an interrogation signal from the boiler house indicating that the carbon dioxide content of the flue gases was abnormal. On being interrogated in this way the computer would scan all the readings transmitted by instruments from the boiler house and take a decision to increase the fuel or air flow in one particular boiler. Having attended to the local crisis in steam-raising its interest would revert to the payroll again.

Alternatively, you may imagine a computer shared between two adjacent factories, each of whom required its payroll prepared at the same hour of the same day of the week. The computer would scan information received from one factory, process some of it, deliver the result to a tape recorder for conversion into printed form and, while the printing was in progress, transfer its attention to the cognate set of operations related to the affairs of the other factory, delivering its output thereto until its attention was once more directed to the first by a suitable interrogation or common signal. Thus two users would be employing one machine, though neither might be aware of the other's existence for the computer would be switching its attention from one to the

other, a fraction of a second at a time, and the input and output devices of each would never seem to stop. . . .

Revolution in Human Effort

In ten years we have, therefore, passed from the first experimental computer, whose periodical working was an engineering miracle, to the current phase of a young industry equipped with experience, suitable components, a maturing philosophy and the means of eliminating all mechanical devices and routine mechanical operations coupled to business offices, on the one hand, and to control systems, on the other. I want you to reflect for a moment on the immense liberation of human beings from inhuman drudgery that this is going to mean. Is anything duller, in all conscience, than routine clerical work or watching instruments?

Those who have been responsible for computer technology have bidden fair to revolutionize a major division of human effort. Can humanity in the long run be other than grateful to them for their efforts? And having gone so far to place the miracles of electronic technology at the disposal of humanity for good or evil, is to too much to ask that those who take these gifts from science and apply them to industry should remember the quality of the opportunities they represent – opportunities for good *or* evil, in which respect they differ from no other technical device that ever was or will be, save in the scale of their implications.

It would be a tragedy if, having solved all the electrical engineering problems presented by these incredibly elaborate devices, we failed to solve the human problems that their installation among human clerical or process workers may represent. Mercifully, I do not think we shall fail on this occasion because forewarned is forearmed.

SUMMARIES OF PAPERS

The following are summaries of the papers which are of more particular interest to the profession.

PAYROLL AND PRODUCTION APPLICATIONS

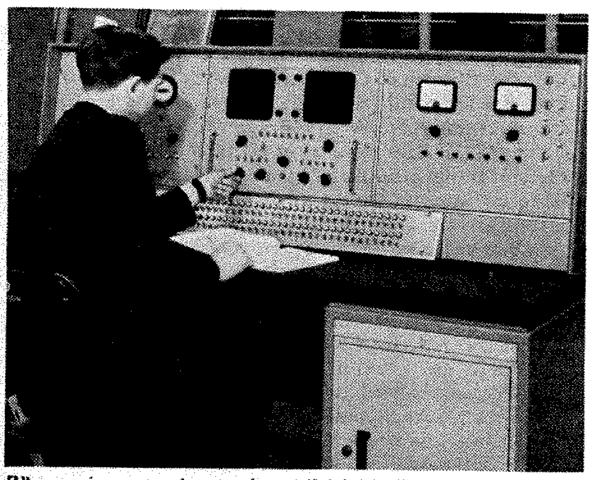
by N. C. Pollock, M.B.E., manager of O. and M. Department, Stewarts and Lloyds Ltd (Birmingham)

Describing the use of a Leo II computer under operational conditions, Mr Pollock said, 'We are not speaking of what we would like to do but what has been done'. After dealing with the practical applications, he continued with other problems that it is hoped will be solved with the help of the computer. Two ways in which a commercial computer can be used are:

(*a*) to do work which was already being done (or which would have to be done) in more conventional ways;

(*b*) to do work which could not have been attempted by ordinary means.

In dealing with the first case, Mr Pollock said the requirements are known, a routine is established and some standard can be set against which the computer's performance can be measured. He warned: 'Established routines often inhibit a fresh approach, and immediate financial saving is not the only goal of administrative efficiency'.



The main control console of E.M.I.'s Emidec 1100 data-processing system which was shown for the first time at the Exhibition.

In the second case the planner may 'face a real difficulty in convincing management that a problem exists and needs to be solved'.

The principal work being done or which is in an advanced state of planning by Leo II at Stewarts and Lloyds Ltd, at Corby, is:

(*a*) payroll, job costs and associated statistics;

(*b*) accounting and replenishment of general stores;

(*c*) warehouse sales invoicing and related statistics;

(*d*) statistical data for actuarial purposes required for the company's works pension fund;

(*e*) calculating pipe stresses and deflection data for use in a technical sales department;

(*f*) forecasting the digging programme for a group of iron-stone quarries.

The speaker detailed the great number of factors to be considered in making up the payroll in which complications such as cost-of-living bonus, temporary changes of job, and all kinds of deductions such as rent, savings, and sales, holiday pay and many other points have to be considered by the computer. 'In a large integrated iron and steelworks the jungle of rules and conditions which govern entitlement to pay is fairly thick,' he said.

The machine time taken to do the whole payroll job is at the rate of 1,000 men an hour, or 3·6 seconds per man. This includes such refinements as weekly dissection, monthly summarizing and the sorting of information for cost accounting.

LARGE-SCALE FILE MAINTENANCE

by D. G. Pedder, B.A., Radio Rentals Ltd (Watford)

The work entailed in planning the transfer of half a million accounts of Radio Rentals Ltd, from conventional accountancy to computer methods was explained by Mr Pedder. The firm has grown from 20,000 subscribers in 1936. The rapid increase in its business since the war and the variety of factors affecting its accounts has presented severe problems.

A certain degree of mechanization has been in use in divisional offices for a number of years. Punched-card and other book-keeping and addressing machines

have helped to alleviate accounting problems but, Mr Pedder said, 'because of their lack of the elementary decision-making element, much has been left for manual processing'.

The scrutiny of accounts for arrears is a particularly important part of the work. Without a computer, the ideal of a single examination of each account and a one-time performance of all the necessary jobs associated with it has never been possible. Complications in the accountancy includes such things as six-monthly reduction in the rate of rentals and the fact that rental plans are revised periodically. One model of a radio or television receiver may have a considerable number of rental plans, but any one subscriber adheres to the rental plan which was current when he signed the agreement.

The decision to buy a computer followed detailed investigation which started with the formation of a two-man feasibility group in January of 1956. In March of 1957 a computer survey team was formed. The company's policy was that the team should be small; it should form the nucleus of the future computer management; it should be given a free hand to review the functions of the company within its scope; it should receive guidance on policy direct from the board; and it should have access to any information it might require to aid its work.

One of the important points Mr Pedder mentioned was that it is easier to teach programming than to teach company procedure. Thus, people with company experience are essential. Another point is that far more time will be spent on the design of the system than on the programming of that system. The detailed system planning and programming of the Radio Rentals scheme was estimated to occupy eight and a half man-years.

PUBLIC UTILITY ACCOUNTING

by G. Sherlock, F.A.C.C.A., A.C.I.S., deputy chief accountant (mechanization) South Western Gas Board (Bath)

The problems facing a large organization in deciding to change over its accountancy to electronic methods were dealt with in detail by Mr Sherlock, illustrated by the experience of the South Western Gas Board.

The problem was first tackled in 1954. A mechanized accountancy department was constituted with terms of reference,

'to investigate the latest accounting techniques, particularly in so far as they are influenced by electronic computing devices, with a view to transferring all possible accounting operations to a centralized machine installation.'

At that time, the speaker pointed out, the 'magic properties' of scientific computers were being much publicized but the possibilities of their application to commercial purposes had hardly gone beyond the exploratory stage. 'There was no clarity', he said, 'as to what the term "computer" meant and a great deal of confusion as to the relative claims of the electronic calculator and computer'.

The SW. Gas Board decided to prepare the fullest particulars of its present and proposed future organization and call upon potential suppliers for proposals based on these. By the following year it was decided to make use of Powers-Samas machines.

'It is almost certain that at the first suggestion of the purchase of a computer, the impression will have gained currency that all kinds of marvellous results can be produced as a matter of course', the speaker stated. 'From the number of needs, requests, suggestions and ideas, the problem arises of deciding what is wanted and by whom and what is the order of priority.'

He suggested the following as a realistic order of importance:

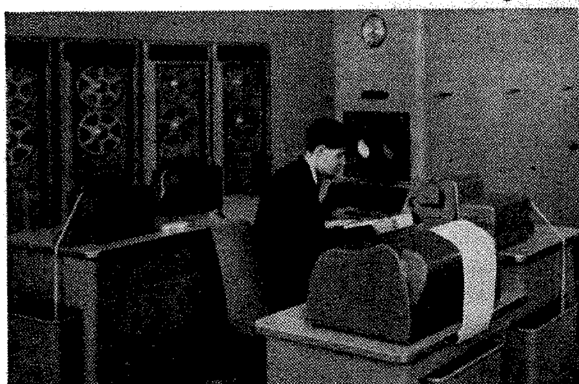
(1) to deal with day-to-day transactions and basic accounting requirements;
(2) to provide management with regular, reliable and up-to-the-minute information in a concise form so that attention can be focused on salient particulars without the need to peruse voluminous records;
(3) to cater for other management and departmental needs – the provision of detailed information which in the past will probably have been produced with some difficulty and at considerable cost.

ELECTRONIC DATA-PROCESSING IN THE NATIONALIZED INDUSTRIES

by Dudley W. Hooper, M.A., A.C.A., chief organizing accountant, National Coal Board

All the nationalized industries are either using electronic computers or are engaged in introducing them or studying their value. Mr Hooper gave details in his paper of present uses of electronic data-processing and some particularly interesting projects which are now under consideration. In preparing his paper he received assistance from the B.B.C., the National Coal Board, the Electricity Council, the Central Electricity Generating Board and Area Electricity Boards, the Gas Council and Area Gas Boards, British European and British Overseas Airways Corporations, the British Transport Commission and London Transport Executive. All these bodies use computers, some of them several.

Mr Hooper suggested that there are two methods of approach in introducing a computer into a large industry. One is the synthetic approach, in which the computer starts by doing routine repetitive tasks and gradually extends to produce management information. The other is the analytical approach in which a complete study is first made of all the information necessarily required, the installation and its use being planned as a whole.



A new Creed paper tape punch machine which can 'punch out' information from a computer at 3,000 words per minute is shown being used in conjunction with the Ferranti Pegasus 2. The complete system is known as the Pegasus Common Language Data Processing System.

The synthetic approach leads to quicker results and provides experience, he said. The analytical approach is slower but should eventually lead to a really satisfactory installation. In a large organization it may well be that both approaches should be made simultaneously.

There were five electronic data-processing systems operating in the nationalized industries when the paper was prepared in July 1958, but, Mr Hooper pointed out, this was partly conditioned by the number of machines delivered up to that time.

British Transport Commission had three machines working at Swindon, Paddington and Bristol and they were also installing a battery of four machines at Derby, two more at Darlington, on paybill and stores accounting. On order were four more computers for King's Cross, Wolverton and Crewe.

The National Coal Board had two, in the Durham and West Midland Divisions, with another on order for the Northern (N & C) Division. The B.B.C. and the electricity and gas industries have eight machines on order.

Some examples of future trends:

B.O.A.C. are engaged on a full-scale re-appraisal of passenger revenue problems. They are also investigating the use of simple special-purpose computers for preparing aircraft flight plans.

The possibility of producing railway time-tables on computers is being investigated by the British Transport Commission.

London Transport Executive have a project on the compilation of road schedule services.

INVENTORY CONTROL ACCOUNTING AND PAYROLL

by A. Bradley, F.C.I.S., executive assistant (Office Procedures and Methods) to managing director, Ford Motor Co Ltd, Dagenham

The Ford organization at Dagenham was possibly one of the first and still is one of the largest commercial users of a computer service for routine clerical operations. Since November 1955, Ford payrolls have been produced on a routine service basis on the Leo computer at Cadby Hall. At present the payrolls for over 21,000 company employees are being produced in this way.

In deciding to use computer services, said Mr Bradley, Fords were

'not simply interested in the simple economics of having payrolls processed by a computer on a service basis, although, of course, we were careful to consider how much this practical experience would cost us. In fact, it has cost us nothing; and it has enabled us to assess more realistically the task of installing our own computer systems.'

He added later: 'We believe that there is a tremendous potential in the business use of computers – not so much from direct cost savings (which, it must always be remembered, vary directly with the inefficiencies of the old as well as with the efficiency of the new system) as from improved management reporting – reporting improved in content and timeliness.'

The planning of the Ford payroll system for a computer was described. A detailed requirements statement was first produced in about four months by a group of three people specially selected to study the problem. This was submitted to the programmers. A number of omissions and ambiguities were revealed as programming proceeded. This latter phase occupied about three months. Initially 750 employees' records were transferred to the computer and for three weeks the work proceeded in parallel with the existing punched-card installation. When the programmes were fully proved, the computer payroll was increased by approximately 1,000 employees at a time.

The average time taken by Leo II/I to deal with all the payroll and ancillary tasks is 2·08 seconds per employee per week. This includes the calculations involved in arriving at net wages (and tax) from hours worked, the printing of pay slips and payroll, also maintenance of individual savings and deferred-payment account, and the production of four-weekly, monthly and half-yearly statistics.

Many of the benefits become apparent only during operational working and as experience is gained. For instance, there was a general pay increase in the company. All that was necessary to effect the individual increases was to supply Leo with the scale of increments to be added to the old scale.

Mr Bradley gave details of a study of the control of spare parts in the Ford organization, which has a stock of 36,000 items and five million stock movements a year. Work planned for a Leo computer now being installed at the new Parts Depot at Aveley, Essex, includes inventory control and valuation, invoicing, the production of statements and ledgers for domestic dealers and sales and cost-of-sales analyses.

ELECTRONICS IN BANKING

by L. Temple, member of the Committee of London Clearing Bankers' electronics sub-committee

British banks handle about 800,000,000 cheques every year, half of which pass through the London head offices of the banks. In addition there are facilities for the transfer of credits between banks which also give rise to large-scale sorting and listing operations.

Eight hundred million cheques a year, assuming a 5½-day week of eight hours a day and excluding public holidays, means:

approximately	2,850,000	cheques	daily;
,,	356,000	,,	hourly;
,,	6,000	,,	per min.;
,,	100	,,	per sec.

Mr L. Temple gave these facts in setting out the conditions which have to be met if electronic computer techniques are to be introduced into banking, particularly in the work of the Clearing House. The London Clearing Bankers have had an electronics subcommittee considering the possibilities since October of 1955.

'There is no evidence to support any suggestion that the conventional mechanical accounting machine has reached the limit of its use or development', Mr Temple said, 'but electronic aids, particularly in the field of paper handling could, if capable of economical development, bring a considerable degree of automation to the large volume of routine which at the present time absorbs a very great deal of clerical labour. The multiplicity of problems which such a programme could entail could only really be satisfactorily studied as a joint banking venture if the greatest benefit were to accrue.'

The initial aim of the banks was the introduction of a machine which would sort cheques in the clearing departments, eliminating much of the drudgery. Then it was realized that if a cheque could be made self-sorting, it could also eventually become self-listing and self-posting.

'Such a conception envisaged a range of fully-

automatic machines which would be able to sort and read cheques, adjust the balance of accounts and produce (as an end product) a customer's statement, the whole chain of processes requiring the minimum of human intervention', Mr Temple said.

The banks' sub-committee are now confident that their plans are capable of attainment. Mr Temple suggested methods of handling cheques, which will be 'coded' in Arabic characters printed in magnetic ink. Each cheque would need encoded information covering: a sorting code; the amount; a transaction code; the account number, and a cheque serial number. All cheques and vouchers would have to be of a standard size, which has now been agreed as between 5 in. × 3 in. and 8 in. × 4 in.

THE PRACTICAL APPLICATION OF A SMALL COMMERCIAL USER

by D. L. Rowlands, A. C. Nielsen Co Ltd (Oxford)

Mr Rowlands dealt with the practical commercial problems that face a small firm intending to apply computer techniques to their business.

'In outlining the experiences of a small company in the use of a computer, it would be foolish to give unbounded encouragement to others who contemplate this step and who fall within the same category, without tempering enthusiasm with warning and advice of the pitfalls which are likely to be met,' Mr Rowlands said. 'Whatever problems a company might have, be they administrative or productive, putting them on a computer may not necessarily turn out to be the panacea promised by the eager salesman.'

Mr Rowlands asked computer manufacturers to take notice of the particular requirements of the smaller user. He said that in undertaking surveys for the requirements of a potential client, manufacturers tend to emphasize the ideal machine, or system of machines for the job, regardless of the economics involved. He added that his own company had one proposal submitted to them relating to the rental of a computer which represented nearly 10 per cent of the company's annual expenditure.

'It is essential', he said, 'if manufacturers are to attract the custom of the smaller companies, that their proposals must reflect a true realization of the economics involved and they must give practical guarantees of the reliability of their machines and their effectiveness in the proposed field of operation.'

The Nielsen operations are unusual in that the computer and punched-card equipment form a very large part of the 'production division' of the company. The raw material is factual data in the form of figures relating to sales in shops for the retail indexes and television viewing in homes for the Nielsen television index.

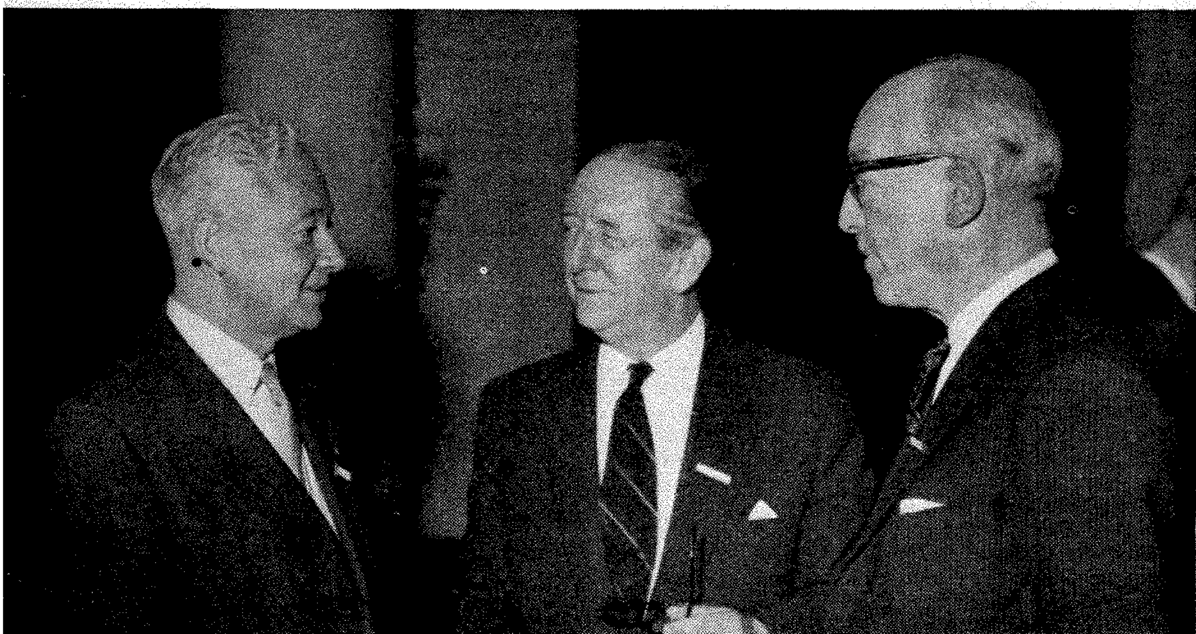
Though estimates have been made that twenty man-years are required to investigate, organize and programme jobs for a computer, Mr Rowlands said that in his firm's experience, from a fully-mechanized punched-card procedure a complete loading of a computer can be achieved in five to six man-years.

REVIEW OF AUTOMATIC DATA-PROCESSING IN GOVERNMENT DEPARTMENTS

by J. H. H. Merriman, M.SC., A.INST.P., M.I.E.E., Organization and Methods Division, H.M. Treasury

Apart from some dozen digital computers in use in research and development establishments, Mr Merriman said that four systems of office automatic data-processing were in operation. These are at

(1) The Board of Trade, for processing data derived from the Census of Production;
(2) The Ministry of Agriculture, Fisheries and Food, dealing with agricultural-deficiency payments;



Mr V. M. Roberts, Chairman of the Joint Committee of the Electronic Engineering Association and the Office Appliance and Business Equipment Trades Association, talking with (*left*) Mr Arthur C. Coaten, Chairman of the Exhibition Organizing Committee, and (*right*) Mr Gordon W. Cushing, Chairman of the Symposium Committee.

(3) The Ministry of Supply, processing payroll accounts for its own staff (17,000 accounts) and for an adjacent National Assistance Board unit (3,000 accounts);
(4) Inland Revenue, analysing statistics derived from tax assessments and preparing P.A.Y.E. tax tables.

In addition, by the end of the year, he said, the G.P.O. will be installing a twin-computer installation to process the payroll of 112,000 staff as well as undertaking statistical work, and H.M.S.O. will be operating a system for general accounting work.

Mr Merriman stated that some forty possible data-processing systems were under study for various departments. For example the three Services and the Ministry of Supply are interested in the application of A.D.P. to stores-accounting, provisioning, purchasing and bill-paying. He gave an example of a projected installation for the Central Ordnance Depot of the R.A.O.C. which procures, holds and issues mechanical transport spares for the army, carrying 200,000 items and handling 8,000 account postings each day.

'Preliminary estimates suggest that an A.D.P. system should, in due course, make possible a substantial saving in clerical posts,' Mr Merriman said. The system will permit a much greater degree of detailed control in the fields of store-holding and procurement from which should result substantial financial savings.

Another typical project under study – at the Ministry of Transport and Civil Aviation – is being planned to include such apparently unrelated tasks as payroll, revenue collection, the preparation of instruments of payment, vote analysis, cost accounting, seamen's saving-bank accounting and eventually certain technical stores accounting and control.

Advantages of A.D.P. include speed of processing, particularly in statistical work, where the value of the result declines as the time between obtaining the original information and publishing final analyses increases.

ELECTRONIC COMPUTERS: A PRACTICAL APPLICATION

by J. F. Body, of Newton, Chambers & Co Ltd

In his paper, Mr Body described the uses made of an electronic computer installed by Newton, Chambers & Co Ltd.

Three years ago the company began to consider the replacement in some form or other of the large Powers-Samas punched-card installation which provided an accounting service to the whole company. It was decided to acquire an electronic computer which would gradually replace much of the existing equipment. A National Elliott 405 computer was chosen, one of its attractive features from the company's point of view being its ability to accept information either in the form of punched cards or punched paper tape: the company was therefore able to take advantage of its highly trained team of punched card operators and their equipment. Moreover, punched card swere extensively used as unit documents throughout the company and all employees were familiar with them.

It was decided that the first project should cover weekly wages and to design a system and programme which would also be applicable to monthly salaries. The revised system has been operating for some weeks and Mr Body listed the following advantages gained so far by the use of the computer:

(1) Overtime payments, stoppages, and all adjustments to salary are given effect to in the current week compared with being two weeks in arrears under the old system.
(2) The system is more accurate – all payments are to the minute instead of to the nearest quarter-hour.
(3) More information is given to the employee.
(4) Holidays paid in advance are taxed at the correct rate for the holiday period.
(5) General rate revisions are easier to cope with as only the rate scales stored in the computer require amending instead of each individual employee's rate under the old system.
(6) All pay-slip information is printed.
(7) Personnel department always have a complete up-to-date record of each employee and keep no hand-written records whatever. The pay-slip office copy for the last week in each calendar year and the latest slip in the current year provide a complete history.
(8) A large amount of hand posting, calculating, transferring of information from one document to another has been eliminated.
(9) The amount of weekly punching has been much reduced.
(10) Changes in rates and National Insurance are automatically adjusted.

THE APPROACH TO E.D.P. OF A LARGE USER

by S. G. Furniss, A.C.I.S., Imperial Chemical Industries Ltd (Glasgow)

Surveying the history of the introduction of electronic computers into Imperial Chemical Industries, Mr Furniss said four computers were installed for commercial work in 1957, but the possibilities of computer applications were being considered as early as 1951 by members of a head office department concerned with research into the use of new office methods and machines.

'It was early appreciated', he said, 'that the realm of computers in the office was full of unknowns – unknowns about the equipment itself, about the effectiveness with which it would perform the operations it was claimed it could do, about problems of input and output, about problems of data preparation in the right form at the right time.'

By 1954 British machines were little beyond the drawing-board stage and there was therefore no practical experience on which to draw in this country. A visit to the U.S.A. that year showed that while there was quite a lot to be seen in the development of hardware, experience in the practical operation of computers for office work was virtually nil.

The ordering of the following machines in 1955 was looked upon as being in the nature of a commercial research project, an initial idea that a machine might be operated centrally on a service basis at I.C.I.'s head office having been dropped.

I.B.M. 650	– Paints Division
Elliott 405	– Nobel Division
Ferranti Pegasus	– Dyestuffs Division
Hollerith HEC 4	– Alkali Division.

'In only one case was there an economic justification established for the installation,' said the speaker. 'For each of the other machines, a reasoned statement rather than a fully economically justified one was prepared. It was on these statements that the decisions to go ahead were based, it being fully appreciated that there was an element of risk and recognizing the fact that it might be necessary to pay to learn.'

Furthermore, it was realized that unless British users co-operated with British manufacturers, the country's stake in this new field would not get very large even

though potentially it seemed possible for machines to be produced more cheaply in the United Kingdom than in the U.S.A.

Because of the research aspect of the four installations and the growing interest in the use of computers for scientific and technical research problems, it was decided to set up an I.C.I. computer panel with four committees to co-ordinate the activities: the personnel committee considered the effect of computers on staff requirements; the office applications committee dealt with possible commercial uses; the research committee studied the scientific use of computers; the programming committee examined the practicability and benefits of exchanging information on programming matters.

WAGES ACCOUNTING

by W. H. Sargent, central wages executive, British Railways, Western Region (Swindon)

Though Mr Sargent's paper dealt specifically with the application of electronic computer techniques to railway wage accounting problems, he pointed out that, in dealing with employees engaged in the construction and maintenance of railway vehicles, conditions are similar to those prevailing in many engineering workshops in industry. The problem presented is to deal with the building up of information necessary to arrive at the net pay for each of 10,000 employees, and subsequent analyses.

The pay cycle is weekly and the compilation of the paybills had to be completed within two days, from 8.30 on Monday morning to 5 o'clock of Tuesday evening, or within sixteen hours of the receipt of the wage sheets. The wages work had hitherto been carried out on key-operated accounting machines but from time to time demands arose that could not easily be accommodated on the existing machine.

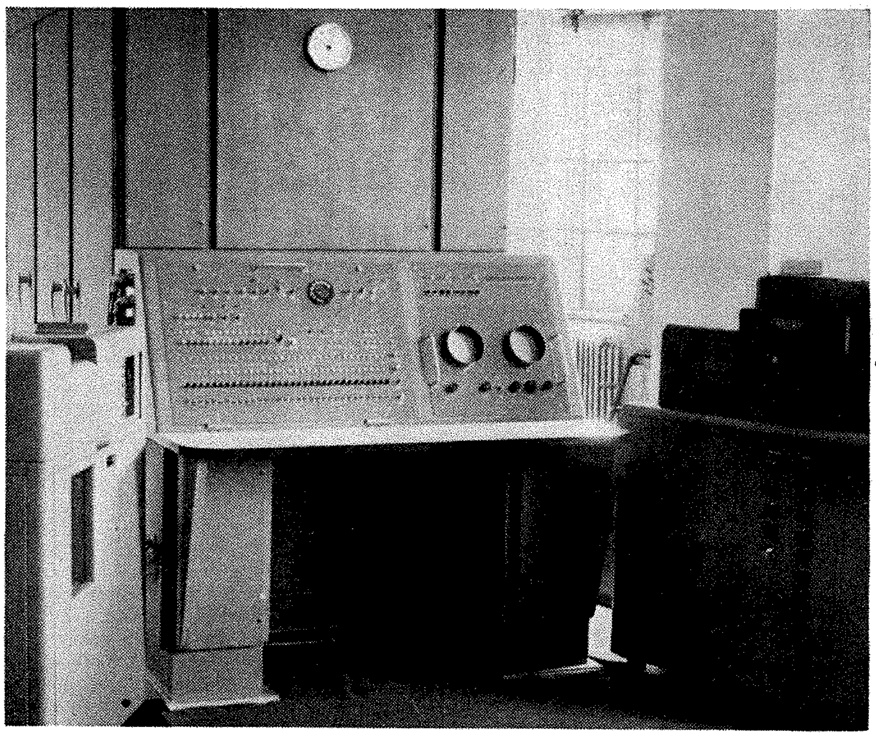
'For example', Mr Sargent said, 'the trade union representatives considered that more detail should be included on the paybill, and as the pay structure became more involved, the system was being asked for more than it was originally designed to give. The complications of the pay structure have naturally increased the number of hours taken to calculate each employee's earning and in the time immediately preceding the installation of the computer there were sixty-one staff engaged for 38·5 hours per week, or a total of 2,348 man-hours. Thus, for each employee, on an average practically 0·25 hour was taken.'

The introduction of a computer technique resulted in a 50 per cent saving in man-hours; and there were other less direct benefits including the fact that the investigation into computer techniques led to a simplification and acceleration of procedures.

'Probably the most important indirect benefit', Mr Sargent said, 'came as a result of providing the employees with a comprehensive and clear pay-ticket. . . . Now, relations with employees have improved considerably and the new form has been warmly welcomed.'

The speaker dealt in detail with the problem of collecting the raw material for the computer, because, he said, 'every user of computing techniques is faced with similar problems and it is extremely important to give ample study to them if the overall advantages of these techniques are not to be offset by slow and inefficient collection of the data processing'.

On the subject of programming, he felt that the whole subject had been overplayed, particularly for accounting applications which do not demand the services of highly-trained specialists. The Powers-Samas organization provided a programming service that was adequate and which they used in the early stages. Since then, one of the railway's staff has taken a course on programming at the manufacturers' training establishment.



An English Electric DEUCE computer which has recently been installed at Bankside House, headquarters of the Central Electricity Generating Board.

THE ASSOCIATION'S ANNUAL DINNER-DANCE

Pictured on the left, Mr W. Jackson, F.A.C.C.A., President of The Association of Certified and Corporate Accountants, proposing the toast of 'The Guests'.

Above, Lord Ritchie replies to the toast. On his left are Mr J. C. Rodgers, M.P., Parliamentary Secretary, Board of Trade; Mr Jackson, and Mrs Jackson.

Mr W. L. Barrows, LL.D., J.P., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mrs Barrows being received by the President of the Association and Mrs Jackson. A list of guests present at the function, which was held at *Grosvenor House*, London, last Monday, appears on the opposite page.

Notes and Notices

PERSONAL

Messrs Derek Webster & Co, Chartered Accountants, of Baker Street Chambers, 136 Baker Street, London, W1, announce that, as from December 1st, 1958, they have admitted into partnership Mr Jeremy Webster, M.A., A.C.A. The style of the firm remains unchanged.

The partners of Newton, Armstrong & Co, Chartered Accountants, of 33 Lawrence Lane, London, EC2, announce that Mr Donald Ernest Farrance Green, M.B.E., F.C.A. (also of Messrs Crew, Turnbull & Co, Chartered Accountants), and Mr John Charles Durnin, F.C.A. (also of Messrs Clark Battams & Co, Chartered Accountants), have joined them as partners. The practice otherwise continues unchanged.

Messrs Bolton, Wawn & Co, Chartered Accountants of 3–4 Clement's Inn, Strand, London, WC2, and Sunderland and Newcastle upon Tyne, announce that as from December 1st, 1958, Mr Norman Edward Rees, A.C.A., A.A.C.C.A., has been admitted into partnership in the London practice. The name of the firm remains unchanged.

Messrs Tingey & Goldblatt, of 64 South Audley Street, Mayfair, W1, announce the opening of an additional office at 216 High Road, Loughton, Essex. Telephone: Loughton 6211.

PROFESSIONAL NOTES

Mr G. L. C. Touche, B.A., F.C.A., has been appointed deputy chairman of the Association of Investment Trusts.

Sir Douglas Waring, C.B.E., A.C.A., has joined the board of Amalgamated Tin Mines of Nigeria Ltd.

Mr John Douglas Clark, F.C.A., has been appointed to the board of Easterns Ltd.

Mr J. B. S. Brockway, A.C.A., has been appointed controller of Seager, Evans & Co Ltd, and its associated companies in the United Kingdom.

Mr Leslie Lavy, F.C.A., has been appointed a director of Thomas Danks & Co Ltd.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

New Assistant Secretary

Mr Thomas B. Degenhardt, M.A., A.C.I.S., has been appointed an assistant secretary of The Institute of Cost and Works Accountants. Mr Degenhardt joined the staff of the Institute in 1954 as education officer and has been closely connected with the Institute's Summer Schools. As a new assistant secretary, he joins Mr Leslie W. Millett, D.F.C., who was appointed assistant secretary in 1948.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Annual Dinner and Dance

The President of The Association of Certified and Corporate Accountants, Mr William Jackson, F.A.C.C.A., with Mrs Jackson, presided over a company of 500 members and guests at the annual dinner and dance of the Association held at *Grosvenor House*, Park Lane, London, on December 1st.

Among those present were Mr J. C. Rodgers, M.P., Parliamentary Secretary, Board of Trade, and Mrs Rodgers; The Lord Ritchie of Dundee, Deputy Chairman, The Stock Exchange; Mr W. L. Barrows, LL.D., J.P., F.C.A., President, The Institute of Chartered Accountants in England and Wales, and Mrs Barrows; and

Mr G. H. Andrew, C.B., (*Second Secretary, Board of Trade*), and Mrs Andrew; Mr R. P. Baulkwill, C.B.E., (*The Public Trustee*); Mr S. J. D. Berger, O.B.E., M.C., and Mrs Berger; Mr L. Bloomfield, O.B.E., (*President, The National Chamber of Trade*), and Mrs Bloomfield; Mr W. K. Brasher, C.B.E., (*Hon. Secretary, General Committee, British Conference on Automation and Computation*), and Mrs Brasher; The Rt. Hon. The Viscount Brentford and Viscountess Brentford; Mrs A. S. Burns; Mr L. F. Cheyney, (*Secretary, The Institute of Municipal Treasurers and Accountants*), and Mrs Cheyney; Mr J. Cowen, C.B.E., (*Secretary, Performing Right Tribunal*) and Mrs Cowen; Sir Cecil Crabbe, (*Chief Registrar of Friendly Societies*), and Lady Crabbe; The Lord Dovercourt and Lady Dovercourt; Mr H. J. Furness, (*President, The Institute of Cost and Works Accountants*), and Mrs Furness; Mr C. G. Garratt-Holden, C.B.E., T.D., (*Secretary, The Building Societies Association*), and Mrs Garratt-Holden; Mr T. E. Goldup, C.B.E., (*Chairman, General Committee, British Conference on Automation and Computation*), and Mrs Goldup; Mr W. Macfarlane Gray, J.P., (*Member of Council*), and Mrs Macfarlane Gray; Mr E. G. Hardman, (*President, The Chartered Institute of Secretaries*), and Mrs Hardman; Mr J. E. Harris, (*Vice-President of the Association*), and Miss E. Harris; Mr Duncan Harrison, (*The Evening News*), and Mrs Harrison; Mr J. W. Hough, O.B.E., (*President, The Institute of Municipal Treasurers and Accountants*), and Mrs Hough.

Sir Harold Howitt, G.B.E., D.S.O., M.C., J.P., and Lady Howitt; Mr G. H. A. Hughes, O.B.E., (*President, The Institute of Arbitrators*), and Mrs Hughes: Mr Percy F. Hughes, (*Editor, Taxation*), and Mrs Hughes; Mr C. V. Jarvis, J.P., (*Member of Council*); Sir Alexander Johnston, K.B.E., C.B., (*Chairman, Board of Inland Revenue*), and Lady Johnston; The Lord Latham, J.P., (*Member of Council*), and Lady Latham; Mr J. C. Latham, D.L., (*Director of the Association*), and Mrs Latham; Mr W. H. Lawson, C.B.E., (*Immediate Past President, The Institute of Chartered Accountants in England and Wales*), and Mrs Lawson; Mr M. A. Liddell and Mrs Liddell; Mr Thomas Lister (*Vice-President, The Institute of Chartered Accountants of Scotland*), and Mrs Lister; Sir Thomas Lund, C.B.E., (*Secretary, The Law Society*), and Lady Lund; Mr P. J. Mantle, C.M.G.,

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(*Assistant Secretary, Board of Trade*), and Mrs Mantle; Mr E. H. S. Marker, C.B., and Mrs Marker; Mr R. Ian Marshall, (*President, The Institute of Chartered Accountants of Scotland*), and Mrs Marshall; Mr T. S. Martin, and Mrs Martin; Mr E. H. V. McDougall, (*Secretary, The Institute of Chartered Accountants of Scotland*), and Mrs McDougall; Mr A. C. S. Meynell, (*Immediate Past President of the Association*), and Mrs Meynell; Mr C. D. Morley, (*Secretary The Stock Exchange*), and Mrs Morley.

Sir Edward Norman, (*Chief Inspector of Taxes*), and Lady Norman; Sir Charles Norton, M.B.E., M.C., and Lady Norton; Mr F. Cameron Osbourn, M.B.E., (*Secretary of the Association*); Mr R. G. Cameron Osbourn; Mr L. E. Peppiatt, M.C., (*President, The Law Society*), and Mrs Peppiatt; Mr J. F. Phillips, O.B.E., (*Secretary, The Chartered Institute of Secretaries*), and Mrs Phillips; Mr J. Pickering, J.P., and Mrs Pickering; Mr George Pollock, Q.C., (*Director, British Employers' Confederation*), and Mrs Pollock; Mr Derek du Pré, (*Secretary, The Institute of Cost and Works Accountants*), and Mrs du Pré; Mr F. M. Redington, (*President, The Institute of Actuaries*), and Mrs Redington; Mr J. Ryan, C.B.E., M.C., and Mrs Ryan; Mr A. Samuels, C.B.E., (*Chairman, London County Council*), and Mrs Samuels; Mr R. L. Sich, C.B., (*Registrar of Restrictive Trading Agreements*), and Mrs Sich; Mr R. J. W. Stacy, C.B., (*Under-Secretary, Board of Trade*), and Mrs Stacy; Mr E. G. Tucker, (*Controller of Death Duties*); Mr Arthur E. Webb, (*Editor, The Accountant*), and Mrs Webb; Alderman Sir Frederick Wells, Bt.; Mr F. Wilson, O.B.E., J.P., (*Member of Council, President, Sunderland Chamber of Commerce*).

The toast of 'The Guests' was proposed by Mr Jackson, and Lord Ritchie responded. Music for dancing which followed was played by George Jay and his Orchestra.

Photographs taken at the occasion are reproduced on page 714.

THE CERTIFIED ACCOUNTANTS' LODGE

The Certified Accountants' Lodge was consecrated at Freemasons' Hall on October 22nd by the Assistant Grand Master, Major-General Sir Allan Adair, Bt., C.B., C.V.O., D.S.O., M.C., D.L., who was assisted by other Grand Officers.

W. Bro. J. C. Latham, P.G.ST.B., was installed as *Master*, and after the installation the following officers were invested: W. Bro. J. E. Harris, *I.P.M.*; W. Bro. C. V. Jarvis, P.P.G.D. (E. Lancs), *S.W.*; W. Bro. G. L. Barker, *J.W.*; W. Bro. A. Garner-Stevens, L.G.R., *Chaplain*; W. Bro. Sydney C. Jones, P.P.G.D. (Middx.), *Treasurer*; W. Bro. C. R. M. Davidson, *Secretary*; W. Bro. A. C. S. Meynell, *D.C.*; W. Bro. J. A. Gopsill, P.P.G.D. (Warwick), *S.D.*; W. Bro. H. Wells, *J.D.*; W. Bro. E. Spencer, *A.D.C.*; W. Bro. E. Greenhill, P.P.G.W. (Worcs), *Almoner*; W. Bro. J. H. Hills, *I.G.*; W. Bro. J. P. Shaw, P.P.G.ST.B. (Herts), *Steward*; W. Bro. A. J. Courtney, L.G.R., *Tyler*.

Afterwards, the consecrating officers and guests of the founders were entertained to dinner in the Connaught Rooms.

The address of the Secretary of the Lodge is 22 Bedford Square, London, WC1.

LIVERPOOL CHARTERED ACCOUNTANTS' DINNER

The annual dinner of the Liverpool Society of Chartered Accountants was held on November 28th, when the Secretary of State for Foreign Affairs, The Rt. Hon. Selwyn Lloyd, C.B.E., T.D., Q.C., M.P., was the principal guest.

Responding to the toast of 'The Institute of Chartered Accountants in England and Wales' proposed by Mr Selwyn Lloyd, the President of the Institute, Mr W. L. Barrows, LL.D., J.P., F.C.A., said:

'Your Society last month started a study group for recently-qualified members and those returning from National Service and I wish it well. If it is successful I think it might well be copied in other areas. Here you have for a long time been pioneers in tackling the whole problem of recruitment, and at Moorgate Place we have been most interested in the important work of your Recruitment Sub-committee, including the production of the leaflet prepared some two years ago, designed to interest school leavers in accountancy as a career and the audit assistants' courses now being run on your behalf by the College of Commerce. Liverpool is certainly giving a lead to the country and the accountancy profession.'

CITY DISCUSSION GROUP

The next meeting of the City Discussion Group will be held on Wednesday next, December 10th, at the *Cock & Bottle*, Laurence Pountney Hill, Cannon Street, London, EC4, at 6 for 6.30 p.m. Mr D. Napper, A.C.A., will speak on 'Other people's accounts' and Mr J. Morris, F.C.A., on 'The Institute's Recommendation No. 20'.

It is hoped that as many members as possible will attend. New members will be welcome.

NORTH LONDON CHARTERED ACCOUNTANTS DISCUSSION GROUP

A meeting of the North London Discussion Group of Chartered Accountants will be held at 6 p.m. for 6.30 p.m. on Thursday next, December 11th, at *The Mason's Arms*, 38 Maddox Street, W1, when Mr H. A. Astbury, F.C.A., will lead a discussion on 'The future of the accountant in practice'.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings will be held during next week:

Monday: Visit to Martins Bank (limited number).
6.30 p.m., at *Grosvenor House*, Park Lane, W1: Annual dinner.

Tuesday: at *The Halfway House*, Dunstable: Annual dinner of Bedfordshire Branch.
6.30 p.m., at Reigate: Lecture on 'Costing' by Mr Ian Liddington, M.A., A.C.A., (Accountant, The Fullers Earth Union Ltd).

Wednesday: Visit to the Westminster Bank (limited number).

Thursday: Hockey *v.* Bristol and Cardiff Students' Societies.

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Shares for Employees

A CURRENT development in company finance which may well have important effects is the bustle of activity to promote a wider spread of share-ownership. Significant of changing economic times, though the various efforts include new ideas as well as extensions of tried methods, the emphasis in each case is on the encouragement of the 'small' investor and worker to spread his or her investment wings. Though, with the Government giving active thought to finding workable means of promoting the movement there is clearly a political motive in fostering the growth of a share-owning democracy, there are also some very sound economic reasons for tapping fresh sources of capital.

If British industry and commerce are to keep in the van of progress and to compete in world markets they must be assured of ample supplies of new money. While many companies are financing substantial proportions of their capital programmes out of retained profits, as a whole they must seek increasing assistance from the new issue market. Thanks, however, to high taxation on incomes, the class of investor who once provided the financial sinews is thinning out or has not enough margin between income and expenditure to maintain an adequate flow of new savings. Simultaneously, onerous death duties are forcing the stock-markets to absorb holdings of existing securities. On the other hand, while the savings margins of the older investment class are diminishing, those of a vast and growing number who are strangers to investment in stock exchange securities are increasing. It is only economic common sense, therefore, that efforts must be made to divert some part of the savings of the latter to building up and strengthening the vast industrial assets which provide millions of them with employment and, in rapidly-increasing numbers, pensions on their retirement.

Until recent months, there have been four main methods of becoming a part owner of public companies. First, is the purchase of shares on the stock exchange. Second are the unit trusts, offering a spread of investment over a number of stock exchange securities and with minimum investments of relatively small amounts. Third, and a more recent development, a small number of companies have encouraged their employees to become proprietors by paying annual bonuses in equity shares or by giving them preferential treatment when making new issues of capital – Imperial Chemical Industries and Courtaulds, two of our largest companies, are prominent amongst the former. Fourth, there is the vastly important and rapidly-expanding *indirect* participation

of tens of millions of men, women and children through contributions to life insurance, pension funds and other mutual methods of saving, through which an increasing volume of funds is going into the equity shares and other securities of many public companies.

Of the recent new approaches, one unit trust achieved considerable success by arranging with Scottish banks to sell its units 'over the counter'. Loan and hire-purchase facilities for financing the purchase of approved securities are now available and one of the new unit trusts has arranged with a credit finance company for payment by instalments. Investment clubs, though still very much in their infancy in Britain compared with their popularity in the U.S.A., are slowly catching on amongst groups of people who wish to make co-operative efforts in putting regular savings to good and interesting use. And, launched with the blessing of Aims of Industry, plans have been worked out whereby public companies can open 'shop companies' for the sale, to their work-people, in bearer form, of their own shares or those of other participants.

Undoubtedly, some or all of these new ideas will blossom and still more will be sprung on the investment world. If, however, they are to achieve their objective of encouraging the 'small' investor and worker to put savings into equity shares, they must be easily workable, cheap to run and prove that it is good and profitable business to invest in industry. Otherwise, a great deal of harm, which might put back the movement for many years, could be done.

Education in company finance and the working of the stock exchange comes first. Before new bodies of investors are encouraged to put money into equities they should know just what they are doing; that stock exchange securities – gilt-edged or otherwise – fluctuate in value; that dividends may fall as well as increase; and that ordinary shares are the risk capital of any company. They must understand the causes which affect market prices and the mechanics of transferring ownership of securities from seller to buyer. As shareowners they should know how to follow the fortunes of the companies in which they have invested – annual reports and other documents must be drawn up in simple, clear and easily understandable form.

Fortunately, the London Stock Exchange has been alive for some time to such needs and has taken active steps to meet them. Those interested in seeing the market at work can do so from the Visitor's Gallery; a panel of lecturers is also available and public relations is being fostered through publications, and other methods of providing factual information.

Until the small investor knows more about equity investment and has sufficiently large resources to build up his own portfolio, it seems only common sense, however, that he should confine his participation to some mutual effort giving a spread of risks under expert management. The possible lack of this 'spread' is, in fact, one of the potential snags in the new company shop idea. If a worker can buy the shares in his own company alone he takes all the risks of losing money if it does badly – and becomes disgruntled. To be really successful it appears to us that, as the plan provides and its sponsors hope, there should be a spread of investment amongst as large a number as possible of 'shop' companies.

In fact, so far, the best way to attract a large and widespread volume of small savings into equity investment is by the unit trust method. But if this is to be really effective, two needs call for early attention. Firstly, if the Government really wants to encourage the growth of a share-owning democracy, it must remove two fiscal handicaps: the 2 per cent stamp duty on share purchases – which so heavily loads the cost of investment – must be abolished; and means must be worked out to eliminate, or simplify, the making of repayment claims by investors not liable to the standard rate of income tax. Secondly, the possibility should be explored of keeping the running costs of unit trusts to a minimum by giving the Trustee Savings Banks power to act as agents on the present simple and effective method of cash over the counter and pass-book entry.

As it is known that the National Savings Movement, with its great band of voluntary workers, could not be harnessed as a whole to any unit trust investment scheme, such an addition to the paid services of the Trustee Savings Banks may, in fact, be one of the most effective methods. All this would require would be an Act of Parliament to give the necessary agency powers and for the unit trusts to be sponsored by top-ranking City firms or the Stock Exchange itself.

Income Tax Penalties

INCORRECT RETURNS

LAST week saw a most significant decision in the High Court on the question of exactly how much the Inland Revenue can exact in penalty when a taxpayer is proved guilty of neglect or refusal to deliver a true and correct return in the circumstances laid down by Section 25 (3) of the Income Tax Act, 1952.[1]

It has long been established that a taxpayer who has complied with a notice to make a true and correct return, in the sense that he has filled up the form and sent it to the inspector, is nevertheless liable to the penalty if by reason of his neglect that return contains a misstatement (*Attorney-General v. Till* ([1910] A.C. 50; 5 T.C. 440)). The maximum penalty laid down is £20 'and treble the tax which he ought to be charged under this Act'. If the Inland Revenue take the necessary proceedings before the General Commissioners, those Commissioners can mitigate the liability as they think fit. If, however, the proceedings are brought in the High Court, the Court has no discretion as to the amount. If it finds the case proved it must award to the Inland Revenue the maximum amount. Now in the case of neglect or refusal to deliver a return at all, it seems clear that the words 'treble the tax which he ought to be charged' means the whole of the tax. Fortified by the decision in *Till*, the Inland Revenue have always maintained that even where the misstatement is of a small amount of one of many sources of income, then the penalty is to be measured by the total tax chargeable, exactly in the same way as if the taxpayer had refused to make a return at all.

The Inland Revenue have power to mitigate or compromise penalties without any proceedings at all and many thousands of people have paid agreed sums for penalties on the basis that small errors in their returns have attracted liability on the astronomical scale indicated above. The unfairness of this interpretation of the law has exercised widespread criticism. When the first legislative predecessor of Section 25 (3) was passed, income tax rates were in pennies rather than shillings, and the total penalties in those days were not great. Now at last a doughty champion of the taxpayer has come forward in the person of MR ALBERT EDWIN HINCHY.

The Inland Revenue obtained judgment against him for penalty under Section 25 (3). In his annual return of 1952 he had stated that his income from interest on his Post Office Savings Bank account was £18 6*s* whereas it was in fact £51 5*s* 9*d*. The additional tax was £14 5*s*. MR HINCHY told the Court that he overlooked transferring money between his Post Office account and non-taxable National Savings Certificates. He had not knowingly made the mistake in the return. In the action the Inland Revenue had claimed £438 14*s* 6*d*, made up of £20 and treble the whole tax which he ought to have been charged for the year. The mistake was discovered as a result of the Bank being required to make a return of interest credited to customers, and an additional assessment was made of £14 5*s* tax.

MR JUSTICE DIPLOCK said that he found Section 25 (3) very difficult to construe, and gathered that he was not the only one since the two standard textbooks on income tax expressed diametrically opposed views on the quantum of the penalty under it. If the Inland Revenue were right, a person liable for £20,000 tax and surtax was liable to a penalty of £60,020 if he made a mistake by understating his income by £1, or by overstating it. If that was what Parliament meant by Section 25 (3) his lordship had to apply it; but the consequences might be absurd and unjust and if there was some other construction which led to a result less absurd and unjust he ought to adopt it. While the phraseology of the Act was by no means uniform, Part II appeared to use the word 'chargeable' for tax before the liability was quantified. It appeared to call it 'charged' only when an assessment had been made. The present proceedings had been brought after the defendant had been charged with all the tax for which he was liable. There was therefore no tax, at the commencement of the proceedings, with which 'he ought to be charged under this Act'. On this construction, the Inland Revenue could recover £20 only and he gave judgment for that amount.

[1] *C.I.R. v. Hinchy*, *The Times*, December 3rd, 1958.

Personal Loans and Interest Rates

by E. K. LANDLESS, B.Sc.(Econ).

The introduction of personal loans and the banks' association with hire-purchase finance houses has brought to the fore a method of quoting interest charges quite different from that hitherto used by the majority of banks; it is the object of this article to analyse the new method from the traditional point of view.

MOST bank advances are charged interest at '*x* per cent over Bank rate', it being understood that the interest will be applied half-yearly in June and December and calculated at the agreed rate on day-to-day balances. The result of 'half-yearly rests' is to increase the effective, as distinct from the nominal, rate of interest by a small fraction; thus 5 per cent interest on a loan of £100 with half-yearly rests amounts to £5 1*s* 3*d*, making the effective rate $5\frac{1}{16}$ per cent *simple* interest for one year.

Difference between Simple and Compound Interest

The difference between *simple* and *compound* interest is fundamental; the former being the amount of interest earned on the assumption that interest is paid on the principal only, whereas compound interest arises when the interest earned after a given interval is added to the principal and itself earns interest for the remainder of the life of the loan, and so on at each succeeding interval until the loan is repaid.

Hitherto compound interest has been the general rule in banking. It is clear that, with high rates of interest and long-term loans, the difference between simple and compound interest can be very great; for example, a loan of £100 at 5 per cent simple interest will earn £100 in twenty years, according to the formula:

$$\text{Interest} = \frac{\text{Principal} \times \text{rate} \times \text{number of years}}{100}$$

At 5 per cent compound interest, however, the interest on £100 at the end of twenty years is £165 6*s* 7*d* or, with half-yearly rests £168 10*s* 1*d*, (the formula here is $P\left(I+\frac{r}{100}\right)^n$, when P is the principal, r the rate of interest and n the number of years). The amount of interest (I) paid by the borrower therefore depends on three factors: (1) the *size* of the loan (P); (2) the *rate* of interest (r); and (3) the *duration* of the loan (n).

It is the custom of firms selling on hire-purchase to quote a nominal rate of *x* per cent per annum and to add the interest at this rate to the price of the goods purchased to give the total cost; this amount is then divided by the number of instalments to be paid to give the appropriate instalment. Interest charged on personal loans by the banks follows this system.

The new method of quoting interest charges on personal loans, generally, is 5 per cent per annum for the duration of the loan calculated on the original loan, and limited to terms of six, twelve, eighteen or twenty-four months. This is, in fact, interest at 5 per cent per annum on the loan calculated by the simple interest formula given above. This type of calculation, however, is strictly applicable only when the loan is repaid in a lump sum at the date of expiry, whereas the personal loan, as we have seen, is repaid by equal monthly instalments.

The instalment on a personal loan of £100 for one year would be: $£\frac{100+5}{12} = £8$ 15*s* 0*d* but as the loan is being extinguished by equal monthly instalments, it is clearly being repaid at a different *rate* of interest than if it were repaid by a lump sum. Although in practice the £5 is added to the £100 immediately, this process is merely a device to determine the amount of the instalment.

Nominal and Effective Rates

The difference between the nominal rate of 5 per cent and the effective or 'true' rate arises from the fact that the amount of the loan outstanding is reduced as each monthly instalment is paid. From this it follows that although the instalments are all equal, they contain varying proportions of interest and capital repayment. Reflection will show that the first instalment consists of one month's interest on the whole loan, and the rest of the instalment is used in reduction of the principal; the last instalment, by contrast, will consist of a relatively small interest charge and a correspondingly large proportion of capital repayment.

The analysis of each instalment into the varying capital and interest elements is, in fact, an actuarial

problem in the nature of loan repayment by annuities. It may seem somewhat pedantic to carry out this analysis into interest and capital instead of taking the rule of thumb method of equal division of each instalment: (e.g. if £100 is paid off by twelve instalments of £8 15*s* 0*d*, then each instalment consists of $\frac{£100}{12}$ (£8 6*s* 8*d*) capital and $\frac{£5}{12}$ (8*s* 4*d*) interest, a happy mnemonic being that the interest is 'one penny per pound per month').

There are, however, two or three reasons of both theoretical and practical importance for this somewhat arid numerical exercise. They are (1) the need to be able to tell the borrower exactly how much of his loan is outstanding at a given time; (2) the rebate allowance to be made if a loan is paid off before maturity; (3) a bank's requirement to bring into its yearly profit and loss account that amount of interest actually earned during the year. The calculation of the amount of interest paid by the borrower during the fiscal year for purposes of tax relief will be facilitated by this process. In most personal loan agreements, however, there is a clause extinguishing the debt on the death of the borrower. This, it may be argued, is in the nature of insurance cover and although it can form only a small part of the bank charge, tax relief may only be allowable on the purely interest element in the charge.

The mathematical problem is to convert the 5 per cent per annum *simple interest on the full amount of the loan* to an *equivalent rate of interest on a decreasing balance*. Annuity tables exist for rapid calculation of instalments on the 'decreasing balance' at given rates of interest, but as, in the present case, the rate is not given in the form required, an estimate has to be made from the known figures. A widely quoted formula for estimating the 'true rate' is:

$$\frac{\text{Quoted charge} \times 2 \times \text{number of instalments}}{\text{Number of instalments plus 1}}$$

which for six months (minimum period) is $8\frac{4}{7}$ per cent, and for twenty-four months (maximum period) is $9\frac{3}{5}$ per cent. These results are only approximate however, and are derived from the assumption that each month sees the capital reduced by a constant amount. It is supposed that, for a twelve months' loan, $\frac{1}{12}$th of the capital is paid off each month and on this basis the average size of the loan will be $\frac{1+\frac{11}{12}+\dots\frac{1}{12}}{12}$ i.e. $\frac{13}{12\times 2}$, which can be generalized into the form $\frac{n+1}{2n}$.

From this it is shown that if £5 interest is paid on an average sum of $\frac{n+1}{2n}\times$ £100, the effective rate is $\frac{5\times 2n}{n+1}$ per cent where 'n' is the number of instalments.

This is only approximately correct, since each repayment of capital after the first is slightly greater than the preceding one. (In mathematical parlance, the reductions increase in geometrical rather than arithmetic progression, although the common ratio is very little more than unity.) It does emerge, however, that the 'true' rate is approximately 9 per cent per annum, and is lower for shorter than longer terms, because the principal is being repaid more rapidly. Since 9 per cent per annum corresponds to $\frac{3}{4}$ per cent per month, it is possible to use $\frac{3}{4}$ per cent annuity tables for first approximations in the analysis of each instalment into its component parts. Closer approximations can be made in constructing a schedule of repayments of the annuity type and may be taken as varying from about $8\frac{1}{2}$ per cent for six months to approximately $9\frac{3}{5}$ per cent for twenty-four months.

An abridged schedule for six months is given by way of example:

No. of instalment	*Principal outstanding*	*Principal repaid*	*Interest for month*
1	1·000000	·163732	·007101*
2	·836267	·164895	·005938
3	·671372	·166066	·004767
4	·505306	·167245	·003588
5	·338061	·168433	·002401
6	·169628	·169629	·001205
Total		1·000000	·025000

*·007101 per month = ·085212 per annum, say, £8 10*s* 5*d* per cent approx.

Similar schedules for other periods can readily be prepared when the 'true' rate has been ascertained.

The recent removal of controls over hire-purchase has led to greater flexibility in the fixing of hire-purchase rates of interest, initial deposits and duration of contracts, etc. It should also be emphasized that there are important differences between personal loans and hire-purchase agreements so that too much should not be made of competition between the two; but on the whole, it is perhaps fair to say that personal loans are likely to appeal to a class of borrower who would not normally undertake the old style of transaction euphemistically called the 'never never'.

Management Control

ANNUAL SURVEY OF CONTROL STRUCTURE

CONTRIBUTED

FOR those who endeavour to control – or to assist the managing director to control – the management of a business from the evidence offered by the movement of the figures in the books of account, the end of the financial year is always a busy period, involving not only the renewal of at least a portion of the working documents, but also the important annual survey of the general layout and effectiveness of the control structure.

As far as the documents are concerned, it is just a straightforward preparation for the coming twelve months. After monthly accounts became the rule rather than the exception in industry and commerce, it came to be recognized that these figures provided a safe and effective foundation for the management of the business. But to read the story that the sales records and the sequence of monthly balance sheets and profit and loss accounts offer to the intelligent manager, it is necessary to create a 'central register' in which the three sets of key figures can be entered up month by month as they are issued at the conclusion of the period, by the sales office and the accounts department.

Control Documents

Management is always based upon comparison, and comparison is very considerably simplified when the monthly figures are aligned side by side or one below the other as they appear. The documents which may be used for this recording work are of three types, known as comparison, working and trend sheets. The comparison sheet has fourteen columns, and is 13 in. high and 14½ in. wide, folding to 8 in.; the first column is for any carry-forward, the next eleven for the current months, and the last two for interim and final figures at the close of the year. Ruled for typewriter spacing and taking sixty-eight items below the headings, these comparison sheets have many uses: balance sheets, current and cumulative profit and loss accounts, factory production results, and so on; each monthly result is entered as it comes in, and the comparative movement of the recorded items builds itself up across the page.

Moving annual totals obtained by adding the new month's result and subtracting the corresponding old month are frequently used in watching the course of affairs; the working sheet emerged owing to the fact that when at the end of the year the cumulative figure did not correspond with the moving annual total – as not infrequently happens if the monthly calculations had been done on scraps of paper subsequently destroyed – finding the error meant reworking the whole sequence of months. Where a composite moving annual total, made up of a number of individual moving annual totals, was concerned, this might be quite a lengthy business. For each of these totals, therefore, a working sheet is used, and the simple calculations necessary remain permanently on record.

Trend sheets are used for entering up the current, cumulative, and moving annual totals of any item. They may be of three types: (*a*) single, for one item; (*b*) double, for two items, with percentage columns alongside, for such records as sales turnover, final profit and final profit percentage; and (*c*) adjustment, where records have to be kept, for instance, of gross sales, credits and returns and net sales.

Working sheets are designed to take three years' results, and trend sheets four years, so that when the end of a year is reached it may be found that these carry on; but the comparison sheets will naturally all have to be renewed, and here a check should be made to ensure that the existing layout is satisfactory from every point of view.

Chart cards and sheets usually run for two years. When, therefore, the end of the second year is reached, all frames have to be redrawn on new stock, and this, if the control panel is an extensive one, may be quite a task. But all this is merely clerical work and can be done at any time as the end of the year approaches.

Annual Survey

The annual survey of the general layout of the control structure is a much more important affair, since it has to be done at three levels to meet the requirements of (*a*) the foremen or superintendents, (*b*) the departmental managers, and (*c*) the managing director. The whole objective of a management control structure is to facilitate the increase of production and the reduction of expense, and with this end in view

to provide those in authority at the different levels with reliable records of that production and that expense, from which they can try to control what goes on, instead of leaving it to control itself.

Allocation of expense seldom presents much difficulty as long as authority limits are well defined. The assessment of production is not so easy, although much more care is given nowadays to the efficiency of the 'indirect' services without which the company could not function. Each departmental chief should have his own yardsticks for measuring this efficiency, and it is important that these yardsticks should be as few as possible and of a nature which allows 'something to be done about it'.

When we come to the managing director's control structure, we move from functional into general management, and the problem then is to pick out from the vast range of possible information obtainable from the permutation and combination of figures from the balance sheet, the profit and loss account, and the sales records, the minimum (*not* the maximum) number of items which will provide the managing director with all he *ought* to know.

This is where the annual survey comes in as the affairs of a business are always on the move, like boiling water in a kettle, and a situation which did not exist at the beginning of the year may have reared an ugly head towards the end. Conversely, a situation which required careful watching twelve months earlier may have righted itself, and the charts or schedules by which it was kept under observation can be scrapped.

The Figures

In every business there is a central core of permanent control statistics which carries on unaltered year after year – monthly records of orders received and outstanding sales turnover, gross and net profit with their percentages, output of physical units and cost per unit (where the product is of a nature which allows this) – these and often others are kept in every business nowadays. One might say they live in the bullseye of the control target, and are direct primary figures taken straight from the books of account or the production or sales records. But there are many more 'derived' figures, which might be said to live in the inner, magpie, or outer of the control target, according to the conditions under which the business is running at the moment, and many of these provide information of considerable value, whether for establishing efficiency or as indicators of increasing or decreasing security.

For instance, one figure which certainly deserves its place in the 'inner' would be the turnover of total capital employed. This is found by dividing the figure at the foot of the assets column of the balance sheet into the moving annual total of the sales turnover, and indicates the number of times that the money in the business is turning over in the course of the year. If a company which makes 5 per cent profit on its sales can turn its money over twice a year it will make 10 per cent on the total capital employed, and obviously the more often that capital can be turned over the more profit will result. The turnover of the total capital employed should, therefore, be watched from month to month, since for it to slow down is an unfavourable indication.

The slowing down may be due to a fall in the turnover with the same assets employed, or a rise in the assets employed with the same turnover, and either condition would require looking into. Behind any movement of figures there is always a reason, and in management control the manager has to be perpetually asking 'Why?' If the turnover is falling, the reason for this must be found and an effort made to stimulate it once more; alternatively, if the offending item cannot be developed again other items must be pressed to take its place.

If it is the assets which are increasing, where is the increase to be found? Is it a rise in the work in progress, or an increase in the finished goods stock or in the debtors, or what? In any case it is money coming to anchor instead of keeping on the move, and good management requires that this should be remedied. In fact, in this one simple figure of turnover of total capital employed, the stimulant for quite drastic action can sometimes be found.

Development of Management Control

All sciences slowly develop their coverage through analytical study, and in the science of management one of the most recent developments is the recognition that control has in fact a field of its own. That this recognition should have come so late in the day is probably due to the fact that it needed the close collaboration of industrial accountants and managers, and both sides have been slow to realize this. The increase of interest in management accounting in recent years has begun to provide the remedy. But management

accounting only prepares and presents the figures for the use of the management controller who, in turn, has to prepare the recommendations, based on those figures, for the use of the executive managers at the three levels, in order that the efficiency and security of the business can be constantly strengthened.

In smaller concerns the accountant may well be called upon to act as management controller, using his own figures prepared on management accounting lines. Hence the need for him to have an expert understanding of the significance of the changes in the figures and an intimate knowledge of the business, so that he can give that advice which the managing director has the right to expect from him in these days. It is for this reason that an annual survey of the control layout is of such importance to him.

North American Commentary – XCV

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(Canada),
Professor of Accounting, McGill University, Montreal

The Journal of Accountancy, New York, August

Changed Views on Deferred Tax Accounting

THE reversal of position by the American Institute's committee on accounting procedure in its revised *Accounting Research Bulletin 44* is the subject of an editorial. The bulletin now states that 'accounting recognition should be given to deferred income taxes if the amounts are material', where declining balance depreciation is claimed for tax purposes but another appropriate method is used in the financial accounts. The only exception envisaged is in the case of certain rate-regulated companies.

The new position approaches that of the Canadian Institute in its much disputed *Bulletin 10*. An alternative provision of the United States bulletin says that, where the deferrment is likely to be for a long or indefinite period, the tax effect may be recognized as additional amortization or depreciation in view of the loss of future deductibility for income tax purposes. The editorial comments that accounting is a pragmatic art and that it is not always possible to be sure in advance what accounting methods will prove most useful in solving new problems.

It is strange how consistently, while references as in the revised bulletin are made to the 'long history of use in England' of the declining balance method of depreciation, the fact of its abandonment by Britain years ago as the 'lazy accountant's friend', is not mentioned. The revised bulletin states that the declining balance method meets the requirements of being 'systematic and rational' and that in some cases it 'may well provide the most satisfactory allocation of cost'.

The Detection of Fraud

Mr Keith W. Dunn, C.P.A., member of the American Institute's committee on accounting procedure, is convinced that confusion to the point of chaos, as to the auditor's responsibility for detection of fraud, exists in the minds not only of the public but also of management, the Courts and even practitioners themselves. He thinks a practitioner may be faced with the dilemma of either giving his opinion without making any special tests for fraud, leaving himself open to a possible legal liability, or insisting on doing and charging for work not wanted by his client and considered unnecessary by many practitioners. The essential point, he says, is whether or not it is necessary, where internal check is inadequate, to test for such things as missing cash, sales numbers and payroll padding.

Examining case studies published by the American Institute, Mr Dunn finds that, in general, where internal check is at all deficient, much test checking is done, apparently solely to detect fraud. He would have these case studies revised in line with the following steps which he recommends for the accounting profession:

(1) It should be agreed that the implications of the accountant's opinion should be limited to the fair presentation of the balance sheet and the net results of operations and changes in equity, and auditors should restrict their examinations accordingly unless requested by the client to go further.

(2) The American Institute's publications should make this limitation crystal clear, and serious consideration should be given to revising the standard short form of opinion to cover only the balance sheet and changes in surplus.

The Controller,
New York, August

Inventory Management

Nearly 30 per cent of the working capital of the average United States business is said to be tied up in inventories, the management of which is still an unsolved problem for many companies. A survey over several years by The National Industrial Conference Board, with replies from over one hundred firms, is said to reveal management's general dissatisfaction and that there is a lack of guiding principles for day-to-day inventory decisions by executives. Few companies see inventories in a positive light in the search for increased profits rather than the mere avoidance of losses.

The present tight money conditions, however, and the embarrassments of recurrent extreme inventory imbalances are said to be rousing managements to a new interest in establishing standards of performance to measure adherence to inventory objectives.

Electronics in Business

Mr John Diebold, president of John Diebold and Associates, Inc, speaking of the results of a survey of 3,500 companies, says that 47 per cent of the large computer users reported very little savings in clerical costs, and the same applied to 58 per cent of medium-sized and 65 per cent of small-scaled computer owners. 72 per cent showed a monthly saving of less than \$5,000 to amortize conversion and installation costs and provide profit. But 35 per cent of the large computer owners reported savings in clerical costs of over \$50,000 per month. The survey is said to indicate widespread underestimation by management as to costs, magnitude of planning and control.

Large-scale Electronics

It is reported that the Republic Steel Corporation is using a \$1,000,000 electronic order processing system. A nation-wide network of tele-typewriters links the basic steel plants, key fabricating plants and district sales offices with the general offices in Cleveland. The teletype machines have special keyboards for duplication of mill order forms, shipping schedules, control records and invoices, operated by electrically-punched tape. A mill order form in full detail can now reach a mill on the date of receipt at the sales office, where previously the delay was as much as a week.

N.A.A. Bulletin (National Association of Accountants), New York, August

Direct or Marginal Costing

Professor Robert B. Wetnight, head of the Accounting Department at Western Michigan University, tests marginal or direct costing by its effect in deferring costs to future periods. Apart from cash and near cash items, he sees the purpose of carrying items in the balance sheet as providing a resting place for them until they can be transferred to the income statement. In the case of equipment, the capitalization stores costs until they can be transferred as depreciation. Similarly, the main purpose of accounting for inventories is to hold incurred costs until they can properly be transferred against sales.

From this point of view of future benefit, Professor Wetnight sees marginal costing as the proper method, for it excludes fixed costs from which no future benefit will come since the future period will have its own fixed costs. In an era of emphasis on the income statement he concludes that direct or marginal costing is the logical method.

The Canadian Chartered Accountant,
Toronto, August

Trends in Audit Practice

Where formerly there would be extensive tests of several months' transactions, Mr St Elmo V. Smith, C.A., contrasts in today's medium-sized and large audits the limited tests of detailed transactions selected within one month. It is a case not so much of economic necessity, he says, as of the increase in size of the client's accounting staff and the improvement of internal control. Mr Smith signalizes the confirmation of accounts receivable and observation or test-checking of inventories as two audit procedures not prescribed in Canada but gaining an ever increasing acceptance in practice. He thinks it likely that the Canadian Institute's Research Committee will, in due course, recommend them as procedures to be carried out in all examinations.

Another trend of recent years, says Mr Smith, has been the shifting of audit work from the year-end date to interim periods. In regard to electronic data-processing records, he says the auditor will need to know what controls are available within the computer and that none has been deleted without good reason. He will need to have some degree of technical training but not a detailed knowledge of the equipment, and he will have to review the division of duties and segregation of authority in the service centre.

The Problems of Inflation

RESPONSIBILITIES OF MANAGEMENT

by SIR HAROLD HOWITT, G.B.E., D.S.O., M.C., D.L., F.C.A.

The substance of the opening address given on November 26th, 1958, at the National Conference of the British Institute of Management.

I HAVE no doubt that many consider that the chief challenge facing industry today is lack of demand. If, however, I were asked to say what I thought was the chief challenge that management is facing in the future, I should specify 'inflation' – with all its collateral problems both at home and abroad and its repercussions in different ways on the different sections of the community. I am not going to attempt to define inflation as I have learned lately that even its definition is controversial. I will assume that in a gathering of this sort we all know what it means.

We have first of all to make up our minds whether or not we deplore inflation. There are some who avowedly welcome it as a means of benefiting those with adjustable incomes as compared with those living on fixed incomes in various forms. There are those who, not going as far as this, think a little inflation is good for morale on the principle, I suppose, of the old music-hall song which ran 'A little of what you fancy does you good'. There are those who think it is a good way, whether reputable or not, of reducing the load of debt as some competing countries have found. Finally, there is the view that it has been with us since William the Conqueror and always will be, so why bother.

Sir Harold Howitt

Personally I take the view, rightly or wrongly, that inflation is an evil thing; that so-called creeping inflation, with its cumulative effects, may soon become galloping inflation and will get out of hand; and that it is wrong to think inflation of the present order has ever been with us before. Further, I take the view that with certain factors helping us at the present time, e.g. the drop in import prices, the slackening of wage increases and the decline in profits, we have a golden opportunity just now not only to scotch, but even to kill the disease, and that if we do not seize this opportunity we shall only have ourselves to blame. We shall be committing ourselves and our successors to the hopeless prospect of chasing our own tails and eventually ending in disaster.

And first let us kill this bogy that inflation, as we know it today, is something that has happened before. It is no such thing, at any rate over the last century. In fact retail prices from 1850 till the beginning of the First World War were fairly stable – they were no higher in 1914 than they had been sixty-four years earlier. Admittedly, they then more than doubled themselves in that war, but afterwards they fell, and at the beginning of the Second World War they were little more than 50 per cent up on 1914 or 1850. They again rose sharply in the Second World War to a point almost in line with that reached after the first war, but instead of then beginning to decline again, they continued their steep increase with the result that they are today nearly four times the 1914 level. With such a picture complacency is impossible. We either mean what we say when we deplore inflation, or we do not. It is no use paying lip service to the desirability of killing it whilst there seems to be a chance of doing so, unless we are prepared to take the medicine that is involved in the process. It is no use putting all the blame for the present state of affairs on one or other section of the community or expecting it to take all the medicine. All must exercise restraint.

I am not suggesting that we can bring prices down to the level at which they stood before the inflation of recent years for it has no doubt in large measure become built-in to the economy of this and of other nations, and indeed the policy of other nations in this regard will continue to have a bearing on our own. I am not even suggesting that we can stop our own inflation at once, but I do think that unless our genuine aim is to get rid of it altogether, we shall get nowhere. We shall undermine our efforts if we let ourselves think that whatever we do, it will continue.

I do not propose – nor am I competent – to enter into the details of the controversy as to whether the crisis of a year ago was due to what is called demand-

pull or cost-push, a controversy which has been irreverently referred to as 'Push me – Pull you'. There is, I am sure, no doubt that both forces react upon each other and grow by what they feed on. I shall only deal with them and related subjects so far as may seem necessary for the purposes of this address.

Excess demand – often colloquially referred to as 'too much money chasing too few goods' – can be created in many ways, and since so much of our total expenditure, both on revenue and on capital account, is now controlled by the Government, a major responsibility for keeping the economy in reasonable balance rests with it. When I was a boy the chief requirement of the annual budget was to find the money for the current departmental requirements of the Government. I used till recently to think there would be some point in having a Budget – even a supplementary one – on a commercial income and expenditure basis with perhaps a balance sheet, even if limited to outstanding indebtednesses. But when it is realized that one of the most important functions of the Budget nowadays is in relation to the amount of demand it stimulates one is bound, however regretfully, to agree that for this purpose cash accounting – except for the trading departments – is the only practical system, and that there is not much point in differentiating too technically between capital and revenue expenditure.

In many other directions also we have departed from strict principles in the national economy. Businesses in difficulties are supported by various devices, and individuals are supported throughout life more by reference to what is considered to be their needs than by whether the economy as a whole is being overstrained by catering for them. In short, man-made policies, generally political, control, bolster up or tax a high complicated financial structure until it becomes well-nigh impossible to judge by internal indices whether or not we are paying our way. This is all the more complicated for a nation such as ours, so largely dependent on external trade and with so many overseas responsibilities.

I only mention these things in order to emphasize that in such circumstances it is healthy, however humiliating, to have an independent view from outside as to whether our economy is sound – and that test is provided by the value of the £ abroad. It does not seem to me a complete answer to say that the troubles of last autumn were due to foreign speculators. Those individuals were at any rate taking a view about our stability, and standing to lose if they were wrong. The internal value of our currency, as reflected in current price levels, is directly associated with the value of the £ abroad.

It must, however, be clear that financial measures such as those adopted by the Government to meet last autumn's crisis cannot by themselves be completely effective, however helpful they may be. It would be strange and unrealistic if they could. They can only move with and help the tempo of the time. They cannot go completely against the stream. Essentially, the country must help itself and that is where management has a vital responsibility.

The Industrial Structure

It is customary to think of the industrial community as divided into two camps, the employers and the employed. This is not, of course, a true picture for many other interests are involved, including the State, which by taxation and other powers is now the major partner. Further, the very terms 'employer' and 'employed' need considerable analysis. I am not at the moment concerned with these matters. I am concerned with management which plays a central role and is largely responsible for trying to hold the balance fairly.

We have progressed a long way in this country from the laws of the jungle, and of the survival of the fittest. We must accept these changes as facts, whether we regard them as a means towards efficiency or as an overhead expense. A major problem of the day is to reconcile the desire to be human in these matters with the other human desire to get as much as one reasonably can. On both sides of industry this latter incentive must be present, and in what I say hereafter I must not be taken as weakening on this fundamental right. The difficulty is to determine what is 'reasonable' and in this decision, to pay due regard to future as well as to immediate consequences.

Let us now look at some of the underlying problems in more detail.

Wages and Labour Relationships

This is probably the most delicate – the most inflamatory – of all issues. I take it that at a conference of this sort, one may assume that politics, as such, is not in the mind of any one of us, unless it be held that everything which affects the pocket of the individual or the prices he pays, has a political bearing, and can only be discussed on party lines. I do not hold this view.

There are certain fundamental issues which must be frankly faced:

(a) Again I put first the issue of inflation. Do we genuinely want wages to be 'real' or to be paid out in an ever-depreciating currency? There can be no harm in wage increases if they keep within the increase in productivity for then prices (in the last resort the cost of living) can remain stable and the increase in wages will have been real. It is no use putting the emphasis the other way round that wages should rise with prices – for that may perpetuate the disease. Reasonableness must therefore have regard to the effect of wages on costs, as the major factor in prices, and management must be prepared to give a fair and considered view on this issue after having satisfied itself that all possible efficiencies have been attained.

(b) The problem is, however, more complicated than

this because it cannot be resolved industry by industry, or plant by plant, without paying some regard to the national picture as a whole. At this stage the other two factors – profitability and productivity – come up for consideration. These issues must to a large extent be viewed nationally for, to take extreme cases, it is idle to think, on the one hand, that wages in an unprofitable industry should be reduced till profits are shown, or, on the other, that in industries of high productivity that factor alone should be paramount. One of the major difficulties is to decide the relative amount of weight to give to the individual circumstances of the industry concerned and to the national average. In so far as management can help to resolve these disputes, it is desirable that you should have at least a working knowledge of the national picture as well as a detailed one of your own section of it. In the last resort, however, this may be an arbitrator's responsibility.

(*c*) These thoughts lead me inevitably to consideration as to whether some broad tram-lines could be laid down to indicate the margins within which individual settlements could be made without imperilling the national whole. They lead also to the thought as to whether some improvement could not be made in the general machinery of negotiation. Suggestions on both these issues have been put forward from time to time and I cannot but think they are worth careful study.

(*d*) The settling of reasonable wage rates is not the end of the story so far as management is concerned. In times of high demand increases in earnings may increase faster than increases in wage rates (drift as it is called), and in times of low demand labour may be hoarded. These matters are upsetting influences and are another challenge to management.

It would be unrealistic to leave the subject of wages without some reference to unemployment. It should not be necessary to state – but I will – that unemployment, in itself, is an evil thing, and perhaps those of us who have never suffered it may be allowed to say so. Except so far as necessary for transitional purposes it represents to the nation a loss of human effort, and to the individual it must normally mean anxiety and privation.

It may be that in a perfect world where all demands, not only of labour, were reasonable, there would be no need for anything more than transitional unemployment – though even this may increase as invention and efficiency increase. But we are not perfect, and the major challenge on this issue seems to me to be whether we wish to live our lives alternating between violent boom and slump, or whether by reasoned control of demand by the Government (through its financial and other means) and by the individual, we wish to aim at living on an even keel. As in most major issues the ideal is no doubt between the two extremes. It must surely be true that excess demand tends to increase incomes – both wages and profits – and if not offset by increase in productivity, to put up prices.

Profits and Prices

Here again, whether we like it or not, and whether or not we think we are undermining the cardinal virtue of incentive, the test of reasonableness in both profits and prices is coming to be required.

Profits of late years have been high. In the industrial field as a whole, their total (after depreciation) from 1950 to 1956 has been substantial compared with wages and salaries – about one-third as much – and as both elements are covered in the price of goods and services sold, they are a material factor in those prices and must bear their share of responsibility for inflation. It may well be, indeed I think it is so, that inflation is itself largely to blame, for it induces high costs, high demand, and high profits; and without those high profits industry could not raise the funds necessary for development, let alone for reinstatement of assets at rising replacement costs.

Another 'challenge of change' therefore that must nowadays be faced is in the matter of prices and of profits. Prices were largely controlled during the war, and though this only applies now to a small though important number of products there is in evidence in some cases a voluntary desire towards reduction of prices. This is a very healthy sign, whether or not it is due to enlightened self-interest, and it is a welcome contribution to the fight against inflation. There is, of course, a limit beyond which exhortation cannot, and cannot be expected to have effect. But at this crucial moment when there is a chance of killing inflation, it is to be hoped that border-line decisions as to whether it would pay to keep prices down, will tend in that direction. If prices as a whole are to be kept stable, and if some prices rise, as they must, other prices must come down.

Decisions on prices naturally have their bearing, immediate or longer term, on profits and the measure of these is coming to be tested in various ways. Businesses in their annual accounts, whilst naturally emphasizing their profitability, are tending to justify their profits by various tests of which three may be mentioned: (*a*) disclosure of the amount of sales; (*b*) return on capital employed; (*c*) pictorial presentation.

Disclosure of the amount of sales

This has been normal practice in America for some time but in this country it has been, and in many cases still is, resisted. Can management truly say that the giving of this information, except perhaps in a few special cases, is detrimental in that it gives away vital information to competitors?

We are all aware of the shortcomings of the turnover figure as a measuring rod for testing profits or for other purposes. These arise in many directions

such as the differences in margins on home and export sales, on a variegated line of products, on semi-processed work and on long-term contracts. For such reasons also comparisons of margins as between companies with differing cross-sections of activities and of products may be misleading. Still, the information may be of use and particularly for comparisons as between different years of the same concern.

Return on capital employed

This is a subject in itself and I cannot hope to do more than touch on it. I welcome the attempts that are being made by some companies to work out an appropriate technique. It involves the question as to whether balance sheet values of assets or their current value should be adopted and it involves the thorny question of depreciation. It is at least clear that so far as possible the principles of compilation of the net asset structure and of the profit figure should be comparable, so that if the assets are written up to current values, the depreciation charge must follow suit for the purpose of the calculation.

I don't think it is fully realized at today's rates of direct taxation and inflation how high a return on capital has to be earned by an industrial concern. Income and profits taxes take 52½ per cent of the profits computed on the Inland Revenue basis, i.e. after calculating depreciation on historical cost. The following table indicates how much is left to a business for reserves, for growth and for the provision of the excess of replacement over historic cost depreciation, at various assumed rates of earnings on net assets and at various assumed rates of dividend on them:

Percentage of earnings on balance sheet value of net assets (fixed assets less depreciation and current assets less creditors)	Income tax and profits tax	Profits less tax	Dividend as percentage of net assets		Net profits retained	Dividend cover
			Gross	Net		
1	2	3	4		5 (3–4)	6 (3/4)
20	10·5	9·5	4	2·3	7·2	4·1
20	10·5	9·5	6	3·5	6·0	2·7
20	10·5	9·5	8	4·6	4·9	2·1
15	7·9	7·1	4	2·3	4·8	3·1
15	7·9	7·1	6	3·4	3·7	2·1
15	7·9	7·1	8	4·6	2·5	1·5
10	5·3	4·7	4	2·3	2·4	2·0
10	5·3	4·7	6	3·4	1·3	1·4
10	5·3	4·7	8	4·6	·1	1·0

Notes.

(1) The return on net assets would be smaller if current values of those assets were taken.

(2) The dividend would normally show a larger percentage if related to the share capital.

(3) The ploughed-back profits are required to be spent on research and development not charged to revenue, on the cost of replacement of fixed assets in excess of historical depreciation, on financing the increasing cost of current assets, on growth – and for retention for general contingencies.

I must leave individuals to criticize these figures according to their taste. Some may think that certain of the returns assumed on capital and certain dividends are excessive – others may reply that without such cover risk capital will not be forthcoming. At the moment I will merely comment on the ploughed-back profits.

In so far as spent on any of the purposes specified in Note (3), it may be said they benefit all concerned, employer and employed and even the public. It must be noted, however, that in so far as they represent additional capital value to the owner they have been found for him by the customer in the price of goods and services sold and, in some cases, free of surtax. Questions therefore naturally arise as to whether growth ought to be provided for him in this way; as to whether the general reserves he puts aside are reasonable; and, even in regard to the replacement of his assets as to whether he ought to be protected in this way from the ravages of inflation. It is, I think, for management to weigh these issues impartially.

So far as ploughed-back profits are spent on growth some may even query whether the profit motive should be the only deciding factor, or whether some control should be exercised over the directions in which capital is spent. It is pointed out that such control exists in the case of the nationalized and certain other industries, and that the Capital Issues Committee controls the issue of new money. And it is probably true that the ploughed-back profits of free enterprise represent a bigger pool of potential capital expenditure than any other. It is also no doubt true that in recent years the capital market would not have been able to find the funds necessary for maintaining and developing business had it not been for ploughed-back profits. I confess I have not heard of any satisfactory methods of dealing with these problems short of curing inflation and establishing effective competition.

On the subject of depreciation it is of interest to note from a review made by the Inland Revenue over the whole field of companies' accounts, that annual allowances on their historic cost basis (on the assumption that initial allowances did not exist) amounted over recent years to 85 per cent of the comparable replacement cost depreciation as computed by the Central Statistical Office. I am hoping that this figure may some day be broken down for us, industry by industry, so as to give another guide to those who wish to adopt the latter basis. My profession is often blamed for its attitude towards this question but there are many sides to it, and once again the real remedy is not to curse accounts, but to cure inflation.

Pictorial presentation

An attempt to demonstrate basic facts pictorially, rather than by dull figures, is found in the tendency towards graphs, slicing the cake pictures, etc. These are to be encouraged but an essential consideration is that they shall be as 'full and fair' as the statutory accounts themselves are by law required to be. It is

so easy, unless restraint is exercised, to give a coloured view to such pictures in decisions, for instance, as to whether given items of profits, dividends or wages, shall be shown gross or net of tax.

Efficiency

I have left till last the field in which management can make perhaps its greatest contribution. Equally important as the fair division of the cake is the size of it, and this involves efficiency in every form, in buying and in selling, in production and in distribution, in recording of all kinds including nowadays computers and electronics. Management is required for all these specialized lines, but it is also required at a higher level to co-ordinate them, and to keep them on the rails. As an example of what I mean, the computer itself, with all its potential power of help to management, must be its slave and not its master, and must not be allowed to add to the avalanche of paper which threatens to submerge us all.

Why is it that in recent years up to 1957, whilst expenditure on new capital construction was considerable, the rate of increase in productivity did not respond? I am not going to suggest the answer because no doubt it is very complex and controversial, but we cannot surely be complacent when we see that annual percentage increases in productivity over the whole economy have been as follows: post-war average 1948–55 – $2\frac{3}{4}$ per cent; 1956 – $\frac{3}{4}$ per cent; 1957 – $1\frac{1}{2}$ per cent; 1958 (first half-year) – 0 per cent. I am aware of course that some industries by themselves show much better results, that all are affected by low demand, and that national figures cover many occupations which do not have scope for increase in production – though their deficiency in this respect must be carried by those that have. In my view, if there are any reasons why these figures are not better, the public ought to be informed for they are the main measuring rod by which permissible increases in incomes of all kinds can be judged.

As business becomes more intensive and competitive, it also becomes more human. Gone are the days, if they ever existed, when a hard-bitten approach to the making of money was all that mattered. The seeking of income of all kinds is still an objective for respect and not for abuse, but it must nowadays be tempered not only by reasonableness in the decisions about wages, salaries, prices and dividends, but also by pride in the industrial structure in the creation of which these decisions play so large a part. Management is concerned not only to make two blades of grass grow where one used to grow, but in the process to achieve pride in the business as an entity in which human beings work, and pride in the quality and price of what it offers to the public.

Weekly Notes

Mr H. Garton Ash Resigns from the Council of the Institute

THE resignation of Mr Harold Garton Ash, O.B.E., M.C., F.C.A., from the Council of The Institute of Chartered Accountants in England and Wales was received with much regret at the Council's meeting held on December 3rd and reported elsewhere in this issue.

Mr Garton Ash, who is senior partner in the firm of James, Edwards & Co, Chartered Accountants, of London, served as President of The Institute in 1950–51 and as Vice-President in 1949–50. He was admitted an Associate of the Institute in 1906 and was elected to Fellowship in 1919.

Elected to the Council of the Institute in 1938, Mr Garton Ash was a member of the Applications Committee from June 1938 to July 1946; the Investigations Committee from June 1942 to June 1949, and again from June 1951 to-date: he served as Vice-Chairman of the Committee for nearly six years. He was also a member of the General Purposes Committee from July 1946 to-date, being Vice-Chairman from June 1948 to July 1949 and Chairman from June 1951 to June 1954, and served as a member of the Summer Course Committee from 1949 to 1951. He joined the Planning Committee on its formation in 1945, remaining a member until 1951 when the Committee was dissolved.

In 1952, Mr Garton Ash served as Chairman of the Council of the Sixth International Congress on Accounting held in London.

New Members of the Council

AT the meeting of the Council held on December 3rd, reported elsewhere in this issue, Mr Reginald Percy Matthews, B.COM., J.P., F.C.A., a partner in the firm of Chas. W. Rooke, Lane, Stubbs & Co, Chartered Accountants, of London, and Mr James Alfred Jackson, F.C.A., a partner in the firm of Lithgow, Nelson & Son, Chartered Accountants, of London and Liverpool, were elected members of the Council of The Institute of Chartered Accountants in England and Wales.

Mr Matthews, who served his articles with Messrs Gray, Stainforth & Co, of London, was

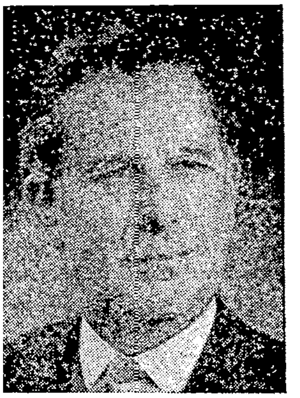
admitted an Associate of the Institute in 1924 and elected to Fellowship in 1950.

He is a member and past chairman of the committee of the London and District Society of Chartered Accountants and is the honorary treasurer of the Chartered Accountant Students' Society of London.

Outside the profession, Mr Matthews serves as a Justice of the Peace at Highgate and has been a member of the Friern Barnet Urban District Council since 1947; he was chairman of the Council from 1952 to 1954 and has been chairman of the Finance Committee since 1948. He is also a member of the Barnet Group Hospital Management Committee.

Mr Matthews has a son who is also a member of the Institute.

Mr J. A. Jackson, F.C.A., who was articled in 1921 with Messrs Harmood Banner & Son, of Liverpool, was admitted to membership of The Society of Incorporated Accountants in 1939, in which year he entered into partnership in his present firm.



He served for ten years as a member of the Committee of the London and District Society of Incorporated Accountants, including one year as chairman, and was elected to membership of the Council of the Society in 1954. He served on numerous committees of the Council and gave papers at the Society's Oxford and Cambridge residential courses.

Mr Jackson is a member of the Institute's Taxation and Research Committee and is also a member of the Taxation Committee of the London Chamber of Commerce.

Efficiency and the Accountant

AS mentioned in the report of the December meeting of the Council of The Institute of Chartered Accountants in England and Wales, elsewhere in this issue, a set of notes on the contribution which the accountant can make towards business efficiency has been prepared and is to be issued to members next week. The publication is intended for insertion in the *Members' Handbook* but it will also be generally available in booklet form.[1]

After a brief cautionary introduction in which the Council makes it clear that eternal vigilance is essential to efficient control, the subject is divided into nine sections, the headings of which indicate broadly the manner of approach. These are: materials; labour; fixed assets; control of expenditure; sales and distribution; volume of output in relation to cost; price determination; return on capital employed; and financial management. The last of these is concerned mainly with the preparation of cash budgets.

In covering this expanse of ground in forty pages, the Council appreciates that its treatment of the theme is not exhaustive and so does not claim that finality has been reached. Enough has been said and said well, however, to make the document one which all accountants, whether in public practice or in industry and commerce, should read. We hope to return next week to a more detailed consideration of its contents.

[1] *Business Efficiency: the Contribution which the Accountant can make.* The Institute of Chartered Accountants in England and Wales, Moorgate Place, London. 5s (incl. postage, except Airmail).

Computation of Double Tax Relief

ALSO included in the report of the proceedings of the Council of the Institute in this issue, is a reference to the submission of claims on behalf of clients for double taxation relief. It is, of course, much easier to leave the computation to the tax office. On the other hand, the strict position is that he who claims a relief ought to be able to say what it is he is claiming. Moreover, even tax offices are not infallible and it may be worth while in the long run always to make one's own computations, particularly where a doubt arises which has to be resolved one way or another.

Another Early Volume[1] for the Institute Library

THE recent acquisition (as noted on another page) by the Library of The Institute of Chartered Accountants in England and Wales of an early volume which has little apparent connection with accountancy is deserving of some explanation. The story is perhaps best told backwards.

James Peele's book on book-keeping – the second one in English to have survived – was printed by Richard Grafton and published in 1553. Peele had been made Clerk to Christ's Hospital the year before and had at once set about writing up the foundation's books on double-entry principles, the 'method of venice'. These ledgers written in his own hand still exist.

It was in 1553 that Richard Grafton was made Treasurer of Christ's Hospital. He had played an important and active part in the establishment of the charitable foundations of the City and unobtrusively paid into their accounts substantial sums of money.

In 1547, Richard Grafton had printed the first book on double-entry in English – a translation from the French of a book that was first published in Dutch. But Grafton's best known work was started in Paris in 1538 where with E. Whitchurch he was engaged on the production of The Great

[1] *The Union of the twoo noble and illustre families of Lancastre & Yorke, . . .;* (by Edwarde Halle). (Richard Grafton.) 1550.

Bible; however, owing to the activities of the Inquisition they had to return hurriedly to England. Fortunately Thomas Cromwell was able to buy from the French both the type and the presses which were set up by Grafton in part of Christ's Hospital buildings leased to him by the Sovereign.

It is clear that Richard Grafton used these same type and blocks for the works by Halle and Ympyn, and the elaborate title-page border appearing in them is the same. The two-inch square decorated initial letters portray biblical scenes; in Ympyn there is an A, a C and an L, in Halle the same L appears twice and additionally there is a V and a T.

The Halle chronicle itself is of considerable merit and interest. The *Dictionary of the National Biography* expresses the opinion that the early part – followed closely by Shakespeare in his earlier plays – is without independent value, but the part on Henry VII and the earlier years of Henry VIII is stated to be of importance and authority.

Richard Grafton was an enthusiast for the 'new learning', for the publication of the Bible in English, for the charitable schools and 'hospitals' set up in the City of London. He took an active part in all these things; it is surely only reasonable to conclude from the evidence that he probably also played an active part in the introduction of double-entry into England besides merely printing two of the first three English books on the subject.

Taxation of Suez Company Share-out

THE Suez Canal Company has convened a shareholders' meeting to be held next Tuesday, to approve the accounts for the seven months to July 31st, 1958, which provide for the carrying to reserve of the profit. The shareholders are also invited to pass a resolution for a distribution to them out of the compensation received from the United Arab Republic, of one share of the 'Société d'Investissements Mobiliers' for every five Suez shares, and 500 francs for every Suez share. The translation of the directors' report includes the following:

> 'This distribution of compensation does not constitute a distribution of income; this is clear, not only from the accounts which are submitted for your approval but also from the resolution on which we ask you to vote. This distribution will therefore have the benefit of fiscal advantages resulting from the law in certain countries, in particular, in France, of the provisions of the Act of February 22nd, 1957, known as the Raingeard Act.'

Unfortunately for shareholders resident in the United Kingdom it seems reasonably clear that such a distribution to them will constitute income for both income tax and surtax purposes in view of the House of Lords decision in *C.I.R. v. Reid's Trustees* (28 A.T.C. 65). If the Suez Canal Company had been resident in the United Kingdom, liability would have been avoided.

The Inland Revenue has already announced that the distribution would be taxable and this has given rise to vigorous protests in the City. A meeting of interested members of the Stock Exchange was held last Monday to consider the situation. This is obviously one of the risks that come to people who invest their money abroad.

Revenue Appropriation Accounts

THE Appropriation Accounts for the three Revenue departments, Customs and Excise, Inland Revenue and the Post Office, for the year 1957–58 were published last week[1]. They are accompanied by the report of the Comptroller and Auditor-General, which deals with a number of interesting topics, including fraud and evasion in relation to taxes on income and profits. The following table shows the latest statistics:

Year ended March 31st	*Number of cases*	*Total charges raised* £	*Penalties included* £
1958	14,593	21,529,264	9,495,437
1957	15,511	22,549,246	9,426,295
1956	16,116	22,661,950	9,426,295
1955	19,663	20,587,922	8,420,419
1954	18,144	20,381,870	7,555,342

These figures do not include minor settlements effected by local inspectors relating to untaxed interest, allowances, etc., which amounted to £894,139 in the year 1957–58.

The total amount of duties remitted or written off as irrecoverable in the accounting period was £2,948,772, made up as follows:

	£
Income tax	2,224,251
Surtax	279,244
Excess profits tax	303,406
Other duties	141,871
	£2,948,772

This is £26,692 less than last year. The distribution of the total amount according to the grounds of remission or write-off, is as follows:

	£
Remissions	
On grounds of poverty	93,684
On grounds of equity	361,987
Miscellaneous: not sufficient to justify cost of proceedings etc. ..	220,416
Amounts irrecoverable	
Insolvency	1,668,448
Composition settlements	96,906
Realization of securities	13,022
Taxpayer abroad or untraceable ..	494,309
	£2,948,772

In reference to stamp duty, the Comptroller points out that letters of instruction to nominee companies holding shares, sent with the intention of transferring the beneficial interest, should attract *ad*

[1] Revenue Departments Appropriation Accounts, 1957–58. H.M.S.O. 1s 9d net.

valorem duty, but it is known that in many cases they are not stamped. The Inland Revenue have become aware that in certain cases the motive for nominee registration is the avoidance of duty. It was proposed to review their practice in regard to mitigation of fines and penalties, and to consider whether there was a case for imposing heavier penalties. However, in general, public companies could be relied on to see that transfers of their shares were properly stamped.

Anglo-French Agreement on Royalties Taxation

THE Board of Trade has announced that an agreement signed with the Government of the French Republic came into force on November 28th under which, on certain conditions, exemption is given from French turnover tax on royalties to United Kingdom inventors (whether individuals or firms) who have licensed the use of the invention in France. The term 'invention' includes the following, whether registered or not:

> Patents, trade-marks, manufacturing processes, techniques and formulae, and copyright.

The inventor must satisfy the French tax authorities that the 'invention' is the result of research carried out by him or by people working under his control or for his account. Proof will take the form of a statutory declaration before a notary public and the relevant documents in support (e.g. patents, contracts, etc.). There are two types of declaration, one where the licensor is an individual, the other where the licensor is a firm. Exemption is already being granted to those United Kingdom licensors of copyright who are the equivalent of inventors (i.e. authors). These persons do not need to make statutory declarations unless specifically required to do so.

The Board of Trade notice also deals with retrospective exemption and the liability for turnover tax in respect of past periods.

London Electricity Board Inquiry

PUBLISHED last week-end as a White Paper was the report of Mr Henry Benson, C.B.E., F.C.A., of Messrs Cooper Brothers & Co, of an inquiry which he was asked by the Minister of Power to make into allegations concerning the method adopted by the London Electricity Board for the disposal of scrap cable. The allegations were made by the Rt. Hon. G. R. Strauss, M.P., to the Paymaster-General. The London Electricity Board started proceedings for defamation against Mr Strauss but he claimed Parliamentary privilege.

Subject to minor qualifications, Mr Benson's report is in favour of the Board. He says the Board were justified in adopting the method of disposing of scrap cable by annual contracts and in adhering to it thereafter. He adds that the Board should from time to time make an independent check of its contract prices by sample collections and sales of the scrap. A member of the Board's purchasing staff in 1952 bought a car for £200 from a company of scrap metal merchants which was regularly submitting tenders to the Board. The car's value was some £400. Mr Benson says this transaction should not have taken place, although it could not have had any bearing upon the decision to adopt the present method of disposing of scrap. Mr Benson also suggests that the Board should consider terminating the practice under which the Board's purchasing staff receive Christmas gifts from firms who have successfully tendered for scrap.

Councils on Tribunals Appointed

THE Tribunals and Inquiries Act, 1958, which was passed to implement the recommendations of the Franks Committee, provided for the appointment of a Council on Tribunals. The function of this council is to keep under review and report on the constitution and working of administrative tribunals, and of those administrative procedures which involve statutory inquiries. Such tribunals include Appeal Commissioners under the Income Tax Acts. The Lord Chancellor has announced the composition of the new council. Its chairman is to be Lord Reading who is well known for his interest in preserving the liberties of the subject and his wide knowledge of public administration. The twelve other members of the council include lawyers, a trade unionist, persons interested in social services and public administration, and a Member of Parliament as the Welsh member – but, singularly, no accountants. The chairman of the Scottish committee of the council is Sir Hugh Rose and the committee has a similar composition.

Mias Group of Companies

THE Board of Trade has announced that it has received a number of inquiries from creditors of the Mias Group of companies. It has advised creditors that their best procedure under the Companies Act is to petition for compulsory winding-up. If there is a voluntary winding up the appointment of liquidator rests with the creditors. We understand that Mias (Holdings) Ltd has filed its own petition to the High Court for winding up, and this is due to be heard on December 15th.

Malayan Company Tax Raised

IT has been announced that both Singapore and the Federation of Malaya are to increase company tax from 30 per cent to 40 per cent as from January 1st. Non-residents will also pay 40 per cent. In Singapore, personal income tax is being increased; the new maximum being 50 per cent for chargeable incomes in the £6,000 range. The Federation is not changing personal income taxation but it is putting another 20 cents on petrol.

Finance and Commerce

Remploy

THE accounts of Remploy Ltd for the year ended March 31st, 1958, provide the reprint this week. It is a company limited by guarantee – the only organization of its kind in the world – set up in 1945 under the Disabled Persons (Employment) Act, 1944, to provide work for severely disabled men and women who would otherwise remain almost permanently unemployed. The idea which is its mainspring was forged in the brain of the late Ernest Bevin, the wartime Minister of Labour.

As the report and accounts show, this charity, in the truest sense of the word, is a combination of public responsibility and private enterprise. Its chairman, Sir Alec Zealley, and his directors have to find gainful occupation on worth-while work for those on the lowest level of the disabled persons register and to sell the product of that work on a commercial basis in line with the production of normal labour.

The result financially is inevitably an 'operational loss', as the accounts put it. But in considering the financial results, says Sir Alec in his review, 'we must not lose sight of the primary fact that we have continued to employ an average of over 6,000 severely disabled workers'.

Not only have these people been found employment with the income it brings (disabled pay is about four-fifths of normal) and a sense of being 'wanted', but in many cases their confidence in the abilities that remain to them is restored, to the point where they are able to go out and take their place in the 'normal' world. Since the work started, over 2,200 people have thus been rehabilitated. This is a result of which Remploy is justifiably proud.

Sponsored Schemes

The goods produced by these disabled workers can be seen in the shops, selling on a commercial basis, in a wide variety of forms: divans, spring interior mattresses bearing the 'Remploy' label; brushes, domestic appliances, furniture, knitwear, etc.

Industry, however, takes a direct part by sponsorship schemes. Two years ago, Sir George Dowty, one of the directors, gave Remploy a plan for reconditioning Dowty hydraulic pit props. The National Coal Board co-operated and with special equipment, first-class tooling, and the assurance of long runs of similar work, Remploy's Sheffield factory now turns out over 400 reconditioned props a week.

Financially, success is measured in terms of keeping down the net deficit on operations. This year the deficit is higher, but largely due, however, to the cost of building up the organization to achieve a higher rate of production and sales and thus to keep down the operating loss in future years.

The capital account is secured by a charge on assets and while the liquidation of such a good work is beyond contemplation, the board are happy in the knowledge that their policy, administered through their finance controller, Mr R. E. Benjamin, A.C.A., could show solvency in a winding-up.

Over-provision

THIS year's report and accounts to May 31st, 1958, of the National Canning Co Ltd, draw attention to an over-provision for depreciation in the past. Following a recent survey of the fixed assets, states Mr W. V. Smedley, the chairman, it was apparent that a change in the depreciation policy was justified. The effect of this change, he says, is indicated in the notes on the accounts. No adjustment has been made in respect of the over-provision in earlier years.

The note in question points out that the charge for depreciation (£143,516 against £170,186) is based on revised rates following a reassessment of the estimated lives of the assets concerned.

The charge for the previous year, the note continues, calculated at the revised depreciation rates would have amounted to approximately £122,000. As in the past, no provision is made for depreciation on land, house property or the freehold factory of one subsidiary. However, land and property, in these days, is more likely to appreciate in money terms than to depreciate and with just over £1 million involved, an indication of current value would add more meaning to the balance sheet.

On the Board

WITH the publication of this year's report and accounts of Rubber Improvement Ltd, shareholders are introduced to a new director, Mr Walter Y. A. Wright, F.C.A. 'Introduced' is hardly the right word perhaps, because Mr Wright has been connected with the company's audit for over twenty-five years.

Last year's report noted that the auditors, Messrs W. Y. Wright & Co, had intimated that due to the work entailed by the continued expansion of the group, they did not wish to continue in office. Messrs Deloitte, Plender, Griffiths & Co were appointed.

After such a long association with the company, Mr Wright takes to the boardroom the fullest qualifications for a directorship, and the chairman, Mr John Lewis, announces his appointment as 'an important step forward in relation to the administration of the company'.

Next Week's Reprint

The accounts of Dennis Brothers Ltd will provide the subject of next week's reprint.

Remploy, Limited

A COMPANY LIMITED BY GUARANTEE AND NOT HAVING A SHARE CAPITAL

Balance Sheet as at 31st March, 1958

NOTE—Every member of the Company undertakes to contribute to the assets of the Company in the event of the same being wound up during the time he is a member, or within a year after he ceases to be a member, such amount as may be required not exceeding One Pound.

31st March, 1957 £	£	£		£	£	£
			The Minister of Labour and National Service:— CAPITAL ACCOUNT (Secured by a charge on the Company's Assets):— Loan in respect of Expenditure on Capital:—			
	2,936,953		Balance at 31st March, 1957		3,133,275	
	12,975		**Less:** Depreciation provided on Assets retired during year, per Contra ..		17,039	
	2,923,978				3,116,236	
	209,297		**Add:** Net addition in respect of transactions during the year ended 31st March, 1958		165,055	
3,133,275						3,281,291
	1,514,769		CURRENT ACCOUNT:— Balance at 31st March, 1957		1,581,682	
		2,737,000	**Add:** Advances during year ended 31st March, 1958 ..	2,820,000		
	2,527,703	209,297	**Less:** Allocated to Capital Account ..	165,055	2,654,945	
	4,042,472				4,236,627	
		2,458,739	**Less:** Excess of Expenditure over Income for the year ended 31st March, 1958, before providing for Depreciation per attached Account ..	2,561,194		
	2,460,790	2,051	Expenditure under "Employment Aids Scheme" per Contra	2,344	2,563,538	
1,581,682						1,673,089
480,700			**Current Liabilities:—** Creditors and Accrued Charges ..			577,047
			NOTE:— Commitments for Capital expenditure at 31st March, 1958, not provided for in the Balance Sheet amounted to approximately £35,000.			
£5,195,657						£5,531,427

31st March, 1957 £	£		Cost £	Accumulated Depreciation £	£
		Fixed Assets:—			
1,307,149		Freehold and Leasehold Land and Buildings	1,662,951	342,948	1,320,003
484,281		Plant, Machinery and Equipment ..	1,172,469	710,576	461,893
72,628		Furniture and Fittings, Canteen Equipment, etc.	184,620	107,481	77,139
92,234		Motor Vehicles	156,766	65,157	91,609
1,956,292			3,176,806	1,226,162	1,950,644
49,603		Loose Tools, Utensils, etc., as valued by the Company's Officials at or under cost			51,266
2,005,895					2,001,910
46,315		**Central Stores:—** Plant, Machinery, Materials, etc., at or under cost, held at Central Stores ..			54,573
	2,051	**Equipment and Other Expenditure Incurred under "Employment Aids Scheme"**		2,344	
	2,051	**Less:** Appropriations from Grants per Contra ..		2,344	—
		Current Assets:—			
	1,261,972	Stock and Work-in-Progress, as valued by Company's Officials		1,315,731	
	4,245	Stationery Stocks, etc., at or under cost		6,475	
	2,055	Stock held in Suppliers' Yards, at or under cost ..		8,377	
	628,037	Debtors and Payments in advance, less Provision for Bad and Doubtful Debts		729,783	
	164,718	Cash at Bank and in Hand		188,416	
2,061,027					2,248,782
		The Minister of Labour and National Service:— DEPRECIATION ACCOUNT:— Net amount charged in respect of Depreciation of Fixed Assets for which no grant is made:—			
	937,871	Balance at 31st March, 1957		1,082,419	
	12,975	**Less:** Amount provided on Assets retired during the year		17,039	
	924,896			1,065,380	
	157,524	**Add:** Depreciation for the year ended 31st March, 1958		160,782	
1,082,420					1,226,162
£5,195,657					£5,531,427

A. T. S. ZEALLEY
J. R. WADE } Directors

Report of the Auditors to the Members of Remploy, Limited

We have audited the above Balance Sheet and annexed Income and Expenditure Account and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for that purpose. So far as appears from our examination, proper books of account have been kept by the Company and adequate returns received from the Factories, Group Offices and Warehouses, none of which have been visited by us.

In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and Income and Expenditure Account, which are in agreement with the books of account and returns, give in the prescribed manner the information required by the Companies Act, 1948, and also a true and fair view of the state of the Company's affairs as at 31st March, 1958, and of the excess of expenditure over income for the year to that date.

11, Ironmonger Lane,
London, E.C.2.
28th October, 1958.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants, Auditors

Remploy, Limited

Income and Expenditure Account for the Year ended 31st March, 1958

31st March, 1957 £	EXPENDITURE	£	£
2,086,987	To Operational Loss		2,133,520
179,345	,, Group Offices: Salaries and Wages (including Pension Scheme Contributions) and other Expenses ..		198,468
4,343	,, Central Stores: Salaries and Wages (including Pension Scheme Contributions) and other Expenses ..		5,038
	,, Head Office:—		
11,028	Directors' Salaries (including Pension Scheme Contributions)	11,676	
82,846	Staff Salaries and Wages (including Pension Scheme Contributions)	92,950	
15,729	Travelling	17,792	
17,609	Rent, Rates, Heating, Lighting and Insurance	19,943	
2,432	Printing and Stationery	2,092	
6,008	Telephone, Telegrams and Postage	5,991	
4,653	Legal and Professional Charges ..	18,117	
1,600	Audit Fee	1,850	
758	Maintenance of Offices	650	
11,504	General Expenses	10,120	
			181,181
157,524	,, Depreciation		160,782
243	,, Rent, etc., of Sites in the Course of Development		297
2,551	,, Provision for Bad and Doubtful Debts		2,616
2,802	,, Royalties		5,640
15,120	,, Discounts Allowed less Discounts Received		23,293
13,570	,, Radcliffe Hostel Expenses		14,907
840	,, Transfer to Employees Welfare Fund		2,000
£2,617,492			£2,727,742

31st March, 1957 £	INCOME	£	£
1,230	By Miscellaneous Income		5,766
	,, Balance carried to Balance Sheet:—		
2,458,738	Excess of Expenditure over Income (before charging Depreciation) transferred to the Minister of Labour and National Service Current Account	2,561,194	
157,524	Depreciation for the year ended 31st March, 1958, for which no grant is provided by the Ministry, transferred to the Minister of Labour and National Service Depreciation Account	160,782	
			2,721,976
£2,617,492			£2,727,742

CITY NOTES

WITH a three-week account now in operation covering Christmas and the New Year, the stock-markets have lost some of their steam. Although bank selling of Government stocks appears to have eased off, there has been little renewed buying support and the despondency of the gilt-edged market is as deep as ever.

The investor is still equity minded, but is now inclined to wait for some reaction in the market before making fresh investment. Buying at present is on a highly selective basis although speculative operations in property shares continue.

The principal reason for the equity market's failure to make any fresh advance, is largely the absence of any direct evidence that freer credit has so far accomplished anything but an initial revival in consumer demand.

In the heavy industries the time lag between freer credit and definite development is still operative and, in a broader field, the down-turn in commodity and metal prices hardly suggests any stocking up by industry generally.

A supporting influence for the equity markets, however, must continue to be the employment of funds channelled into the unit trust movement. Philip Hill Higginson's initial offer of units in British Shareholders Trust pulled in well over £4 million. Preparations have now been completed for the launching of a new trust by Robert Fleming & Co, while, early in the New Year, a trust operated by the National Group and N. M. Rothschild & Son is to be put before investors.

RATES AND PRICES

Closing prices, Wednesday, December 10th, 1958

Bank Rate

Feb. 16, 1956	5½%	May 22, 1958	5½%
Feb. 7, 1957	5%	June 19, 1958	5%
Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%

Treasury Bills

Oct. 3	£3 14s 1·39d %	Nov. 7	£3 11s 7·04d %
Oct. 10	£3 13s 0·72d %	Nov. 14	£3 11s 0·97d %
Oct. 17	£3 12s 3·08d %	Nov. 21	£3 8s 4·68d %
Oct. 24	£3 13s 7·94d %	Nov. 28	£3 6s 1·20d %
Oct. 31	£3 11s 8·23d %	Dec. 5	£3 4s 5·75d %

Money Rates

Day to day	2⅜–3%	*Bank Bills*	
7 days	3–3⅛%	2 months	3⅜–3 7/16%
Fine Trade Bills		3 months	3⅜–3 7/16%
3 months	4¼–5%	4 months	3⅜–3 7/16%
4 months	4¼–5%	6 months	3⅜–3½%
6 months	4½–5¼%		

Foreign Exchanges

New York	2·80⅜–7/16	Frankfurt	11·69–⅛
Montreal	2·70 9/16–⅝	Milan	1745¼–¾
Amsterdam	10·58⅜–½	Oslo	20·00⅝–⅞
Brussels	139·37½–·40	Paris	1177¼–½
Copenhagen	19·32⅞–·33⅛	Zurich	12·22⅝–¾

Gilt-edged

Consols 2½%	50⅝xd	Funding 4% 60–90	89¼
Consols 4%	73⅞	Savings 2½% 64–67	82¾
War Loan 3½%	65⅜	Savings 3% 55–65	89⅝
Conversion 3½%	65½	Savings 3% 60–70	79⅝
Conversion 3½% 1969	86⅝	Savings 3% 65–75	74.
Exchequer 5½% 1966	103½	Treasury 2½%	48⅝
Funding 3% 66–68	83 13/16	Treasury 3½% 77–80	75 11/16xd
Funding 3% 59–69	82 7/16	Treasury 3½% 79–81	76 3/16
Funding 3½% 99–04	70½xd	Victory 4%	95⅞

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

A Profits Tax Puzzle

SIR, – Viscount Simonds took the view that the gross relevant distributions must have been made out of past profits although the franked investment income was in excess of this distribution. Mr Sophian reiterates this point (November 29th issue). However, distributions made out of current profits and franked investment income are apportioned entirely to these profits and the franked investment income, only any excess being spread back, as the following examples will show:

Trading profits	£1
Franked investment income ..	£12,000
Gross relevant distributions ..	£12,000
Net relevant distributions:	
$\frac{1}{£12,001} \times £12,000$, say	£1

If the gross relevant distribution had been £12,005, the net relevant distribution would be under the proviso of Section 34, Finance Act 1947 – £5. The result of the apportionment is that the gross relevant distribution which is attributed to the franked investment income is not included in the net relevant distribution.

The decision of the House of Lords turned on a technical point. Their lordships thought that in view of the provisions of subsection 7 (1) (*a*), Section 32, Finance Act, 1947, the franked investment income had to be aggregated with the past losses in order to arrive at a figure under the proviso of Section 34, Finance Act, 1947. Lord Reid conceded that Section 32, Finance Act, 1947, was somewhat obscure, but unfortunately the referred to subsection was not obscure enough to be ignored altogether. There is some consolation that the practical application of the decision is greatly limited through the last Finance Act.

Yours faithfully,

Harrow, Middx. HENRY HOLT.

Communist Costing Conventions

SIR, – With the advance of industrialization in Communist controlled countries their products are beginning, in a number of third markets, to provide significant competition for British exports. In some cases their prices are substantially lower than ours. This raises a point which appears to require very serious study if this competition is to be met effectively in the future. Cheap labour, export subsidies, or controlled exchange rates may all be factors involved, but a very important question remains: to what extent are the prices from Communist countries lower because they are based on conventions of costing which differ from those in use in the capitalist countries? What rate of return does a Communist State enterprise expect on its capital investment in exports, or on its asset investments in general? How does such an enterprise value its stocks and fixed assets in a period of inflation?

All these are very relevant questions for anyone attempting a long-term appreciation of the competitive threat from Communist sources. If standard Communist works on costing and accounting methods exist, they would be well worth study and comment. In the short-term, Communist exports may be for political ends, but over the years this may not continue as a general rule. If we are to meet competition based on a different version of costing principles would it not be wise to learn what that version is?

Yours faithfully,

J. E. S. HAMMOND.

Chesham Bois, Amersham, Bucks.

The Demise of *Accounting Research*

SIR, – I expect that many of your readers will, like myself, have been grieved to see the obituary notice of *Accounting Research* in *The Accountant* for November 15th.

Without doubting the wisdom of the Council of the Institute in its decision, one may be permitted to deplore the circumstances, whatever they may have been, that made such a decision necessary. Perhaps the next issue of *Accountancy* or final issue of *Accounting Research* will reveal those circumstances.

Among my personal acquaintances, many accountants – practising as well as academic – looked on *Accounting Research* as one of the very few learned journals in the world in its field. It had established for itself a unique place in accounting as a journal which was open to any kind of article, from whatever source, which gave evidence of original thought or research. It was not subject to the views or outlook of any professional body and its pages embodied the spirit of the open mind.

Its untimely death leaves a gap in current accounting literature.

Yours faithfully,

University of Melbourne. L. GOLDBERG,
G. L. WOOD PROFESSOR OF ACCOUNTING.

Paying it with Poetry

SIR, – I know it is difficult to find some sort of rhyme to 'au revoir'; but is not your correspondent 'Fifteen by Eighteen' (December 6th issue) risking the loss of a client by the use of the word 'adieu'?

Yours faithfully,

Bristol, 3. P. V. ROBERTS.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, December 3rd, 1958, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. L. Barrows, President, in the chair; Mr C. U. Peat, M.C., Vice-President; Messrs J. Ainsworth, M.B.E., H. Garton Ash, O.B.E., M.C., E. Baldry, O.B.E., C. Percy Barrowcliff, T. A. Hamilton Baynes, J. H. Bell, P. F. Carpenter. Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, J. Clayton, C. Croxton-Smith, S. Dixon, W. W. Fea, J. Godfrey, G. G. G. Goult, P. F. Granger, J. S. Heaton, D. V. House, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs P. D. Irons, H. O. Johnson, W. H. Lawson, C.B.E., H. L. Layton, R. B. Leech, M.B.E., R. McNeil, J. H. Mann M.B.E., W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., S. J. Pears, P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, K. G. Shuttleworth, C. M. Strachan, O.B.E., J. E. Talbot, E. D. Taylor, A. D. Walker, V. Walton, M. Wheatley Jones, E. F. G. Whinney, J. C. Montgomery Williams, R. B. Winter, C.B.E., M.C., with the Assistant Secretaries.

Resignation from the Council

The Council received with much regret the resignation of Mr Harold Garton Ash, O.B.E., M.C., F.C.A., from his membership of the Council. Mr Garton Ash had been a member of the Council since 1938 and was President for the year 1950–51.

Elections to the Council

Mr Reginald Percy Matthews, B.COM., J.P., F.C.A., and Mr James Alfred Jackson, F.C.A., were elected members of the Council to fill the vacancies caused by the resignations of Mr William Gordon Campbell, B.A., F.C.A., and Mr George Lawrence Capel Touche, B.A., F.C.A.

Dealings in and Notices relating to Securities: Prevention of Fraud (Investments) Act 1958

(1) The Prevention of Fraud (Investments) Act 1958 consolidates the Prevention of Fraud (Investments) Act 1939 with Section 117 of the Companies Act 1947 and certain provisions of the Companies Act 1948. The Council wishes to remind members that in 1951 the Council issued a statement drawing attention to certain important provisions of the 1939 Act. The position remains the same under the consolidating Act and the Council has decided to reproduce in the following paragraphs its 1951 statement with the Section references amended so that they relate to the 1958 Act.

(2) The Council desires to draw the attention of members to certain important provisions of the Prevention of Fraud (Investments) Act 1958 which may not be sufficiently appreciated, namely:

(i) Section 1 of the Act, which (subject to certain exceptions) prohibits any person from carrying on or purporting to carry on *the business of dealing in securities* except under the authority of a principal's licence or a representative's licence; and

(ii) Section 14, which places a general restriction on the distribution of circulars relating to securities, subject to certain exceptions specified in sub-sections (2) and (3).

Dealing in securities

(3) Section 26 of the Act defines 'dealing in securities' as meaning:

'Doing any of the following things (whether as a principal or as an agent), that is to say, making or offering to make with any person, or inducing or attempting to induce any person to enter into or offer to enter into:

(*a*) any agreement for, or with a view to acquiring, disposing of, subscribing for or underwriting securities or lending or depositing money to or with any industrial and provident society or building society, or

(*b*) any agreement the purpose or pretended purpose of which is to secure a profit to any of the parties from the yield of securities or by reference to fluctuations in the value of securities.'

(4) The definition of 'dealing in securities' is thus extremely wide, but the prohibition in Section 1 is against *'carrying on or purporting to carry on the business of* dealing in securities'. Whether or not the act of dealing constitutes the carrying on of the business of dealing is a question which depends on the circumstances of the particular case. The Council has been advised by counsel that a single act which falls within the definition of 'dealing in securities' would not normally be likely to be held to constitute carrying on the business of dealing, but it might be so held in the particular circumstances; on the other hand a number of acts falling within the definition of 'dealing in securities' would normally be likely to be held to constitute carrying on the business of dealing, but it might not be so held in the particular circumstances. Counsel is unable to advise any general rule which could be applied.

(5) The Board of Trade has authorized the Council to state that in the opinion of the Board professional persons such as accountants and solicitors who may in their professional capacity arrange for the purchase or sale of securities for their clients or who may deal in securities in the course of administration of a deceased's estate or as liquidator, trustee in bankruptcy or similar professional capacity, would not ordinarily be held to come within the restrictions of Section 1. In its application to members of the Institute, this opinion would apply only to dealings which are incidental to the professional services rendered to clients by a member in practice. There is no provision in the Act conferring a general exemption for transactions carried out by professional persons on behalf of clients; the opinion given by the Board of Trade should therefore be regarded as guidance on the question of what might be

held to constitute carrying on or purporting to carry on the business of dealing in securities.

(6) No prosecution under Section 1 can be instituted without the consent either of the Board of Trade or the Director of Public Prosecutions. A person who is convicted of contravening Section 1 is liable, on conviction on indictment, to imprisonment for a term not exceeding two years or to a fine not exceeding £500 or to both; or on summary conviction to imprisonment for a term not exceeding six months or to a fine not exceeding £100 or to both.

Circulars and advertisements

(7) The general restriction imposed by Section 14 of the Act on the distribution of circulars relating to securities is subject to certain exceptions specified in subsections (2) and (3). Under subsection (2) the restriction does not apply in relation to any distribution of documents which is permitted by the Board of Trade. Where a member wishes to obtain the permission of the Board he should submit a copy of the circular and any other documents which he proposes to distribute in connection with the matter.

(8) The Council is advised by counsel that by reason of subsection (4) of Section 14 an advertisement inserted in a newspaper, journal, magazine or other periodical publication may in certain circumstances constitute a 'circular' for the purpose of the section.

Communications to the Board of Trade

(9) Any communications to the Board of Trade in connection with the Act should be addressed to the Assistant Secretary, Board of Trade, Insurance and Companies Department, Horse Guards Avenue, Whitehall, London, SW1.

Business Efficiency

On the report of the Parliamentary and Law Committee, following consideration of a draft submitted by the Taxation and Research Committee, the Council has authorized the issue of a statement entitled *Business Efficiency: the Contribution which the Accountant can make*. This will be distributed to members on December 15th, 1958, for insertion in the *Members' Handbook*. The statement is also available in booklet form for purchase at 5*s* per copy (including postage, except airmail) on application to the offices of the Institute. *Remittances must accompany applications.*

Computation of Double Tax Relief

When submitting a claim for double tax relief on behalf of a client it has been the practice of some members to include with the claim a computation of the relief due. Other members have left the computation to be made by the office of H.M. Inspector of Taxes. Some members who have followed the latter procedure have been receiving requests from inspectors' offices to submit a computation with the claim, and they have drawn the attention of the Institute to this development. Representatives of the Institute have discussed the matter with the Inland Revenue, and the Council has decided to draw the attention of members to the following points:

(*a*) District inspectors who request taxpayers or their accountants to prepare the computations are not acting under a general instruction which precludes their preparing or assisting with such computations. The procedure is left to the individual district office, and where an office is heavily burdened with work it may well be that taxpayers or their accountants will be asked to submit computations.

(*b*) Rates of overseas tax applicable to company dividends can normally be obtained by reference to the list published half-yearly as a supplement to the *Stock Exchange Weekly Official Intelligence;* the last such list was published in July 1958 at a price of one shilling. Where the rate required does not appear in the published list the tax office will, on request, refer to head office for the information.

Members' Handbook

The Council decided to make available for purchase by members at 2*s* (including postage) a 'temporary container' into which a particular section of the *Members' Handbook* can be transferred, for example when a member wishes to take the Recommendations on Accounting Principles to a meeting without having to take the complete handbook. An order form will be issued to members on December 15th, 1958, at the same time as the issue of Supplement No. 2 containing the statement on *Business Efficiency* referred to elsewhere in this report.

Exemption from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

Exemption from the Intermediate Examination

One application under bye-law 85 (*b*) for exemption from the Intermediate examination was not acceded to.

Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to.

Registration of Articles

The Secretary reported the registration of 377 articles of clerkship during the last month, the total number since January 1st, 1958, being 2,425.

The P. D. Leake Trust

The Council approved for publication the accounts of the P. D. Leake Trust for the year to October 31st, 1958, a report on the administration of the trust and a report of the P. D. Leake Committee. A booklet containing these reports and accounts may be obtained without charge on application to the offices of the Institute by any interested person. (It is expected that copies will be available by the end of December 1958.)

Use of letters F.S.A.A.

One application from an incorporated accountant member A.S.A.A. to use the letters F.S.A.A. under clause 4 (*b*) of the scheme of integration referred to in clause 34 of the Supplemental Charter was refused.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Aarons, Stanley; A.C.A., 1958; (Stanley Aarons & Co), 3A Rectory Road, Stoke Newington, London, N16.

Abrahams, Alan; A.C.A., 1958; (Abrahams & Co), 8 Portland Avenue, Stamford Hill, London, N16.
Banks, Edward William; A.C.A., 1958; (S. 1937); Toothill, Ongar, Essex.
Benedict, Peter Harry; A.C.A., 1958; (Peter Benedict & Co), 92 New Cavendish Street, London, W1, and at Edgware.
Bennett, Alexander Solomon; A.C.A., 1958; (P. G. Heslop & Co), Portland House, 73 Basinghall Street, London, EC2.
Beswick, James Metcalf; A.C.A., 1955; (Shuttleworth & Haworth), Lloyds Bank Buildings, 53 King Street, Manchester, 2.
§Blunden, William Stanley; (1958); A.S.A.A., 1929; (*Denyer & Blunden), 20 West Street, Brighton, 1.
Burman, Peter Ronald; A.C.A., 1958; (Burman & Co), 69 Putney Road, Handsworth, Birmingham 21.
Chapman, Roger Stanley, M.A.; A.C.A., 1955; (Oakley, Wederell, Crouch & Co), Devereux Buildings, 9 Devereux Court, Strand, London, WC2.
Davies, Hereward Scott; A.C.A., 1958; (Hereward, Scott, Davies & Co), 3 St Helen's Place, Bishopsgate, London, EC3, and Barclays Bank Chambers, 159 Stoke Newington High Street, London, N16, and at Barnet, Finchley and Palmer's Green.
Farra, Leonard; A.C.A., 1958; (Leonard Farra & Co), 34 Eastdown House, Amhurst Road, London, E8.
Gravestock, Robert; A.C.A., 1958; (*Oliver H. Smith & Co), Meer Street Chambers, Stratford on Avon.
Gunary, Brian Arthur; A.C.A., 1951; (Iion V. Cummings & Co), 22 Western Road, Romford, Essex, and at Brentwood.
Hall, Frank; A.C.A., 1950; (†Thomas Bourne & Co), and (†Thompson & Sherratt), 6 Lichfield Street, Burton-on-Trent; also at Ashby-de-la-Zouch and Nuneaton (†Thomas Bourne & Co).
Harrison, Leslie; A.C.A., 1955; (†Walter Smee & Co), 178 Charing Cross Road, London, WC2.
Herman, Frank Ephraim; A.C.A., 1958; (F. E. Herman & Co), 18 Charing Cross Road, London, WC2.
Hiner, James Samuel; A.C.A., 1958; (S. 1931); (P. G. Heslop & Co), Portland House, 73 Basinghall Street, London, EC2.
Hodder, Gordon John Walter; A.C.A., 1953; (Worthington, Hodder & Co), 42A High Street, Sutton Coldfield.
Inkpen, Cyril; A.C.A., 1958; (R. N. Store & Co), Osborne Chambers, 23 Osborne Street, Grimsby.
James, William Barron; A.C.A., 1957; (Lancaster, King, Ridgway & Co), Queen's College Chambers, Paradise Street, Birmingham, 1.
Jones, David Harold, B.SC.; A.C.A., 1958; (Lithgow, Nelson & Co), Derby Square, Castle Street, Liverpool, 2, and at London and Southport.
Kilburn, Jack; A.C.A., 1958; (S. 1955); (*Speight, Gardner & Co), Sun Buildings, 15 Park Row, Leeds, 1, and at Selby.
Lancaster, Noel Brownrigg; A.C.A., 1958; District Bank Chambers, 2 Devonshire Street, Carlisle.
Lowman, Victor Alfred; A.C.A., 1954; (Iion V. Cummings & Co), 22 Western Road, Romford, Essex, and at Brentwood.

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§ means 'incorporated accountant member'.

Firms not marked † or * are composed wholly of members of the Institute.

†against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Lunt, John Albert; A.C.A., 1953; (Shuttleworth & Haworth), Lloyds Bank Buildings, 53 King Street, Manchester, 2.
Marshall, Jack; A.C.A., 1958; (S. 1949); (Lowrey, Weston & Whalley), 12 South Parade, Leeds, 1, and at Harrogate; also at Skipton, (Weston, Whalley & Jackson).
Moss, Leonard Anthony; A.C.A., 1958; (Leonard A. Moss & Co), 22 Wychwood Avenue, Canons Park, Edgware, Middlesex.
Richardson, Peter John; A.C.A., 1950; (Shuttleworth & Haworth), Lloyds Bank Buildings, 53 King Street, Manchester, 2.
Rogers, Bryan Keith Humphrey; A.C.A., 1957; (†Walter Smee & Co), 178 Charing Cross Road, London, WC2.
Scott, Robert Dunlop Irwin, M.B.E.; A.C.A., 1958; (S. 1935); (*Moore, Temple & Co), 22 High Town, Hereford, and at Llandrindod Wells; also at Llanidloes (*Grammer, Moore & Temple).
Seitler, Benjamin; A.C.A., 1958; (Benjamin Seitler & Co), 82 Portland Street, Manchester, 1, and at Salford.
Shaw, Louis Raymond; A.C.A., 1958; (S. 1957); (Louis Shaw & Co), 4 Oakhill Road, Norbury, London, SW16.
Slaney, Arnold Keith, B.A.(ECON.); A.C.A., 1955; (Slaney, Bartlett & Co), Prudential Building, 33 Church Street, Mansfield, Notts.; also at Worksop (Arnold J. R. Slaney & Co).
Somerscale, Walter; A.C.A., 1958; (S. 1923); (Lowrey, Weston & Whalley), 5 Princes Square, Harrogate, and at Leeds; also at Skipton, (Weston, Whalley & Jackson).
Stewart, John Purves; A.C.A., 1958; (C. J. Hayward & Co), 1 High Street, Camberley, Surrey, and at Reading.
Vaulkhard, Norman Jardine; A.C.A., 1952; (Weston, Whalley & Jackson), Midland Bank Chambers, Skipton, Yorks.; also at Harrogate and Leeds, (Lowrey, Weston & Whalley).
Worrall, Malcolm; A.C.A., 1958; (S. 1956); (*Robert O. Worrall & Son), 1 Bailey Lane, Breightmet, Bolton.

Resignations

The Council accepted the resignations from membership of the Institute of:

Lewis, Norman Cyril, A.S.A.A., 1958; with Knight, Bland & Co, High Road Chambers, 3 Grosvenor Road, Ilford, Essex.
Mounter, Ernest Walter; A.C.A., 1958; (S. 1932); 70 Epsom Road, Guildford, Surrey.

and of the following members with effect from December 31st, 1958:

§Andrews, Harry; (1958); A.S.A.A., 1932; 1 Ridgeway Park Road, Newport, Mon.
Aris, Joseph Leslie; A.C.A., 1907; 8 Castle Way, Steyning, Sussex.
§Greenwood, Norman; (1958); A.S.A.A., 1929; 'Polefield', Padarn Crescent, Llanbadarn Fawr, Aberystwyth.
§Orris, William Gabriel; (1958); A.S.A.A., 1921; 26 Queen Elizabeth's Drive, Southgate, London, N14.
Palmer, Roy Vicary, M.M.; A.C.A., 1920; 10 Wadham Gardens, Hampstead, London, NW3.
Primost, Colin Jonathan; A.C.A., 1957; 98 West Heath Road, London, NW3.
Twemlow, John; A.C.A., 1926; 'Greenbriar', Thorney Hill, Bransgore, Christchurch, Hants.
Varwell, John Browning; A.C.A., 1919; c/o Saward, Baker & Co Ltd, 27 Chancery Lane, London, WC2.
Ward, Albert Frank; F.C.A., 1932; A.C.A., 1921; 'Pendle', Langford's Lane, Shaftesbury, Dorset.
Wilkinson, Roger Buchan Graham; A.C.A., 1935; 41 Manchester Street, London, W1.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Robert Leslie Arnison, A.C.A., Wigan.
„ Arthur Stanley Beamish, F.C.A., Richmond, Surrey.

Mr John Wilson Bramwell, A.C.A., Preston.
„ Ronald Maxwell Browne, F.C.A., London.
„ Hilary Carol Howard Bull, A.C.A., London.
„ Alfred Ernest Burlock, A.C.A., Enfield.
„ Albert Cripwell, A.C.A., Birmingham.
„ Herbert Edward Filby, A.C.A., Ilford.
„ John Mungo Glaister, F.C.A., Siloth.
„ George Meredith Hope, A.C.A., London.
„ Thomas Hunter, F.C.A., London.
„ Frederick George Jenkins, F.C.A., London.

Mr Albert Jones, A.C.A., London.
„ Alan Taylor Mather, F.C.A., Blackpool.
„ Denis Stuart Robinson, A.C.A., Durban.
„ Leonard Jarvis Shelton, T.D., A.C.A., Wolverhampton.
„ Reuben Silburn, B.A., A.C.A., London.
„ Leslie Charlesworth Simpson, F.C.A., Leicester.
„ Richard Albert Vivian, F.C.A., London.
„ Eric James Waddington, A.C.A., Mill Hill.
„ Ernest Henry West, A.C.A., Leicester.
„ James Willing, A.C.A., Waban, U.S.A.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on November 5th, 1958.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Clement Norman Wood, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of Clause 21, sub-clause (3) of the supplemental Royal Charter in that he signed the Accountant's Certificate required by Section 1 of the Solicitors Act, 1941, relating to the practice of a solicitor, for each of four annual accounting periods up to October 31st, 1955, of that practice which he knew or which he ought to have known were not accurate, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Clement Norman Wood, F.C.A., had been proved and the Committee ordered that Clement Norman Wood, F.C.A., of St James's House, 44 Brazennose Street, Manchester, be reprimanded.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that George Moulson, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of Clause 21, sub-clause (3) of the supplemental Royal Charter in that (1) being the trustee of the Will of a deceased person he failed to reply to or to comply fully with repeated requests made to him during the period from October 1957 to July 1958 in relation to the affairs of the tenant-for-life under the trusts of that Will; (2) being the sole trustee of another Trust he failed to reply to or to take any action in response to repeated requests made to him during the period from May 1958 to July 1958 in relation to the affairs of the tenant-for-life under that Trust; (3) he failed to reply to four letters from the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against George Moulson, F.C.A., had been proved under all headings and the Committee ordered that George Moulson, F.C.A., of 22 Norfolk Row, Sheffield, 1, be excluded from membership of the Institute.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

The Boss: the life and times of the British business man; by R. Lewis and Rosemary Stewart. 1958. (Phoenix, 21*s*.)
*Budgetary Control and Standard Costs; by J. A. Scott. Fourth edition. 1958. (Pitman, 21*s*.)
Business Enterprise: its growth and organization; by R. S. Edwards and H. Townsend. 1958. (Macmillan, 60*s*.)
Capital Finance and Investments of Local Authorities; by B. A. Williams. 1958. (Shaw, 37*s* 6*d*.)
The Changing Pattern of Distribution; by N. A. H. Stacey and A. Wilson. 1958. (Business Publications, 45*s*.)
Controls on Company Finance; by B. J. Sims. 1958. (Sweet & Maxwell, 25*s*.)
Costing a casting. (Association of Bronze & Brass Founders.) Birmingham. 1958. (A.B.B.F., 30*s*.)
Decision Making and Provuctivity. (Standard Motor Co); by S. Melman. Oxford. 1958. (Basil Blackwood, 27*s* 6*d*.)
Economics for Students; by J. L. Hanson. Fourth edition. 1958. (Macdonald & Evans, 9*s* 6*d*.)
Harle and Rose's Secretarial Law and Practice in New Zealand; by P. G. Harle. Fourth edition by J. D. Rose. Wellington. 1958. (Butterworth (Australia), 47*s* 6*d*.)
Housing: being the annotated texts of the Housing Act; 1957, and The Housing (Financial Provisions) Act, 1958, by J. D. James. 1958. (Butterworth, 57*s* 6*d*.)
Investment in Innovation; by C. F. Carter and B. R. Williams, 1958. (O.U.P., 15*s*.)
The Practice and Law of Banking; by H. P. Sheldon. Eighth edition by H. P. Sheldon and C. B. Drover. 1958. (Macdonald & Evans, 35s.)
The Profits Tax Simplified; by A. Rez. 1958. (Barkeley Book, 7*s* 6*d*.)
Sales Management: a practical guide to sales organization . . .; by C. L. Bolling. Fourth edition by R. Tarrant. 1958. (Pitman, 21*s*.)
Smith's Taxation. Sixty-second edition by A. E. Bevan. 1958. (Advertiser Press, 14*s*.)
Social economics; by W. Hagenbuch. 1958. (James Nisbet, 12*s* 6*d*.)
Successful Office Manuals: how companies in various lines of business are improving the office manual. (Dartnell Corporation.) Chicago. 1958. (Dartnell Corporation 114*s*.)
Taxation Manual . . . Ninth edition; by P. F. Hughes. 1958.
* The Taxation of gifts and settlements . . .; by G. S. A. Wheatcroft. Third edition by G. S. A. Wheatcroft and M. Franks. 1958. (Pitman, 52*s*.)
The Union of the twoo noble and illustre families of Lancastre & Yorke, . . .; (by Edward Halle). (Richard Grafton.) 1550. (£10.)[1]

* These have been presented by the Institute to all District Society libraries under the grant of books scheme.

[1] See Weekly Note on page 731 of this issue.

LONDON CHARTERED ACCOUNTANT STUDENTS' DINNER

Lord Mayor among the Distinguished Personalities Present

The forty-fifth annual dinner of the Chartered Accountant Students' Society of London was held at *Grosvenor House*, London, on Monday, attended by over 1,300 members and guests.

Mr W. E. Parker, C.B.E., F.C.A., President of the Society, who presided, announced that Lord Rowallan, The Chief Scout, who was to have proposed the toast of 'The Students' Society', was unwell and was unable to attend. 'On your behalf,' he said, 'I have sent him a message wishing him a quick recovery.' He added that one of the principal guests, Viscount Monckton of Brenchley, President of the Institute of Bankers, had kindly agreed to propose the toast.

Illustrious Presidents

In proposing the toast, Lord Monckton said he had looked at the record of what had happened during 1957 and found they had done great work as a students' body. He little realized what great opportunities fell to members of the Society until he came to the passage which said that during the year they had visited no less than six of the great banks and the Old Bailey. (*Laughter.*)

He found they had also organized sports and social events, and 'these things make a great contribution to the happiness and fullness of one's life in any profession or in preparing for one'.

He noted that the Lord Mayor of London had been their President for six years – a great distinction for the Society; Sir Harold Howitt for five years; and Lord Plender for thirty years. These great names, and many others, were connected with the Society.

Lord Monckton said he thought students were fortunate in studying the great art they were going to practice, because, he commented with a smile, 'I used to be in the difficulty that I never knew where to find the crucial figure, on which side it would be, or what it would mean when I got to it. Those in your profession did their best to enlighten my ignorance'.

Year of Change

Replying to the toast, Mr B. Martin O'Regan, B.SC.(ECON.), chairman of the Students' Committee, said they all regretted the absence of Lord Rowallan, and wished to say how indebted they were to Lord Monckton for speaking at such short notice.

The Society had enjoyed a year of high activity, excitement and change.

'For the past six years Sir Harold Gillett, whom we are glad to welcome back tonight, has been our President, and we are all pleased and proud that Sir Harold should be the Lord Mayor of this great City of London.

'In Sir Harold's six years as our President we learnt very much from him and his presence always added dignity to our meetings. We shall always be grateful to him for the time and interest he devoted to our affairs.

'This Society has always been fortunate in its choice of President and in Mr Parker we have found a very worthy successor to this long line of distinguished Presidents.'

At the reception: Mr W. E. Parker, C.B.E., F.C.A., President of the Students' Society (*centre*) with (*on his right*) The Lord Mayor of London, Alderman Sir Harold Gillett, M.C., F.C.A.; Mr A. E. Samuels, LL.B., J.P., The Rt. Hon. the Chairman of the London County Council; Mr S. P. Chambers, C.B., C.I.E.; Mr B. Martin O'Regan, B.SC.(ECON.), Chairman of the Students' Committee; Mr Alderman and Sheriff R. E. Perring; and (*on the President's left*) Viscount Monckton of Brenchley, P.C., K.C.M.G., K.C.V.O., M.C., Q.C.; The Rt. Rev. Francis E. Lunt, M.A.; Mr W. L. Barrows, LL.D., J.P., F.C.A., President of the Institute, and Mr Sheriff J. E. Evan Cook, J.P.

In the past year, he continued, the Society had organized lectures, visits to banks and to industrial firms, mechanized accounting demonstrations, and had continued to hold hectic and instructive residential courses at Oxford and at Cambridge. In addition, a very strong and flourishing debating group continued to put the world right on Tuesday evenings, and the dances and sports sections were increasingly popular.

'The stimulus of integration has increased our numbers to well over 7,000 and we are very glad to welcome all those new members here tonight. We have opened a new branch at Reading, and it is hoped that the Bedfordshire branch, which has been active for many years, will shortly be formed into an independent society.'

Resilience and Independence

Mr O'Regan said he wished to thank all the principals who took an active interest in the Society, whether as lecturers, or instructing their articled clerks to attend.

'It is one of the great sources of strength and of weakness that this profession is split up into thousands of small individual units and firms. This delegation gives a tremendous resilience and independence to the affairs of the profession, but it is also a weakness as in some things a little more uniformity, co-operation and acceptance of conventions would be desirable. There appears to be an unawareness, a strange unawareness, that there are other people and other firms in this same profession.

'It is at the level of the articled clerks that the Students' Society endeavours to remedy this deficiency by bringing people together and giving them as much as we are able, a corporate feeling'.

It was with pride, said Mr O'Regan, that the Society had learned of the appointment of Mr Parker as chairman of the Institute's committee on training and education for the profession. The committee of the Society would be sending in a submission which, while he thought it would contain that energy and perhaps idealism which should and ought to be found in the younger generation of any dynamic society for it to stay alive, he hoped would also show that the younger generation had got a touch of realism and a good sense of what was practical. He continued:

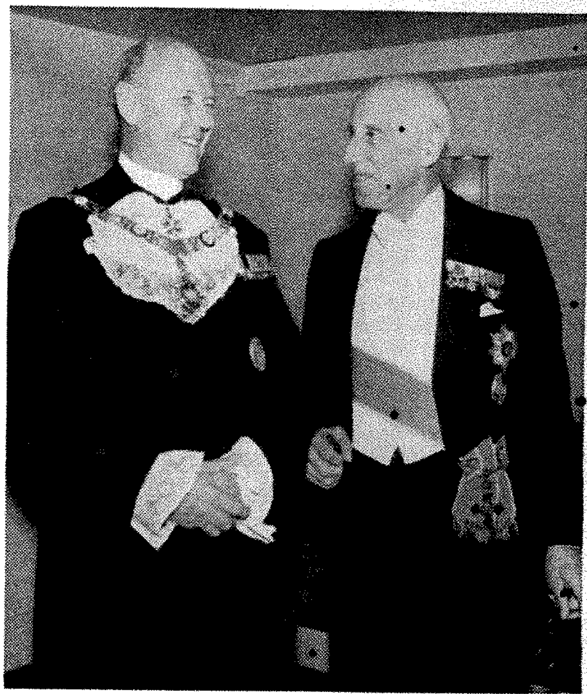
'At a conference at Bristol last Friday and Saturday, articled clerks representing twenty-five students' societies in England and Wales discussed at some length this problem. Many ideas have emerged. For instance, one small idea that could be of great practical benefit was that the dates of the Intermediate and the Final examinations should be staggered; that is, instead of the Final following one week after the Intermediate, there should be a gap of a month or more between the two.

'This would stop that mad exodus, rather resembling the flight into Egypt, when some offices are greatly handicapped by the absence of both Intermediate and Final candidates being on study leave at the same time.'

Proposing the toast of 'The Visitors', Mr Parker said how much the Society owed to the work of Mr O'Regan and his committee, to Mr Carter, the Secretary, Miss Large, Assistant Secretary, Miss Gill, who had acted on this occasion as the dinner secretary and deserved special mention, and to all the others who had toiled and laboured to administer and foster the activities of this very large and active body.

In welcoming the guests, Mr Parker paid a special tribute to the Lord Mayor, saying:

'As President of this Society for the past six years, he knows it far more intimately than I do, but as Lord Mayor, he cannot begin to know the depth of our pride in seeing him in his present dignity and in having him at this dinner with his entourage, and in being able to claim the Lord Mayor of London as a member of this Society and its immediate Past President.'



The Lord Mayor of London, Alderman Sir Harold Gillett, M.C., F.C.A. (*left*), with Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., F.C.A.

The members of the Students' Society should feel proud indeed that so many great men had paid them the compliment of coming to this dinner, he said. 'I will tell you why these great men have reached their exalted positions – because they have the ability to think, and that is the most important single attribute you must cultivate if you are to do justice to the profession you are training to enter.'

Good Friendship

Alderman Sir Harold Gillett, M.C., F.C.A., the Lord Mayor of London, responding, said in the course of his speech:

'I owe the position I hold today to the fact that in 1908 I became an articled clerk with a firm in Coleman Street. I attribute all my success to the training I received as a chartered accountant.

'On behalf of the visitors, I do thank you very much for the wonderful evening you have given us here tonight, the hospitality and, above all, that enormous amount of good friendship, because it is on good friendship that a profession such as this is based.'

As the head of the Livery, he wished the students the greatest of good luck in the years to come, good luck in their examinations and in their future lives. It was their own example of integrity and well-doing that would lead to their success in the years ahead.

The toast of 'The Institute of Chartered Accountants in England and Wales', was proposed by Mr S. P. Chambers, C.B., C.I.E., who said that the profession offered a great future. Members of the Institute reached the highest offices in civil life – an outstanding example being the Lord Mayor of London.

No Lack of Success

In his response, Mr W. L. Barrows, LL.D., F.C.A., President of the Institute, said:

'Some years ago at a function such as this the system of articled clerkship was compared with the apprenticeship scheme of the old livery companies as follows: "Our own Institute's system of apprenticeship for articled pupils and its supervision of professional conduct are not so very different from the practices of mediaeval guilds in regard to these matters." Around you are many products of the Institute's system, which does not indicate any lack of success; but alive to the changing needs of the community and particularly to the problem of recruitment, the Council of the Institute to which you aspire to belong, has set up a committee under the chairmanship of your President, Mr Parker, to investigate the whole field of education and training for entrants to the profession.

'Recently you were requested by the chairman of your committee to submit views and suggestions to your Secretary in this connection, and I hope that many of you will have done so; as you must realize, in considering proposals of this sort it is immeasurably more satisfactory if one knows the thoughts of those who are directly affected, and it is essential to get views from as many quarters as possible.

'Your President must be a very proud man in having the first citizen of the City of London here tonight, and before he goes I would like to tell the Lord Mayor how honoured we are that a member of the Institute and its Council should, this year, be in that outstanding position.

'I was recently looking up *The Accountant* of fifty years ago and I was interested to see that in those days your Students' Society used to have a number of Ten-minute Papers. On April 1st, 1908, there were two, the first on "Secret Reserves", given by R. Kettle, now Sir Russell Kettle, and the second on "Depreciation of Horses", by Rodway Stephens – shades of a leisurely age.' (*Laughter.*)

Mr Barrows went on to refer to the care taken by the Examination Committee in preparing the examination papers and concluded:

'Those of you present tonight, who hope for membership of our great Institute, have the future of the profession in your hands. I wish I could put the clock back and share with you the wonderful opportunities that lie ahead.'

The Company

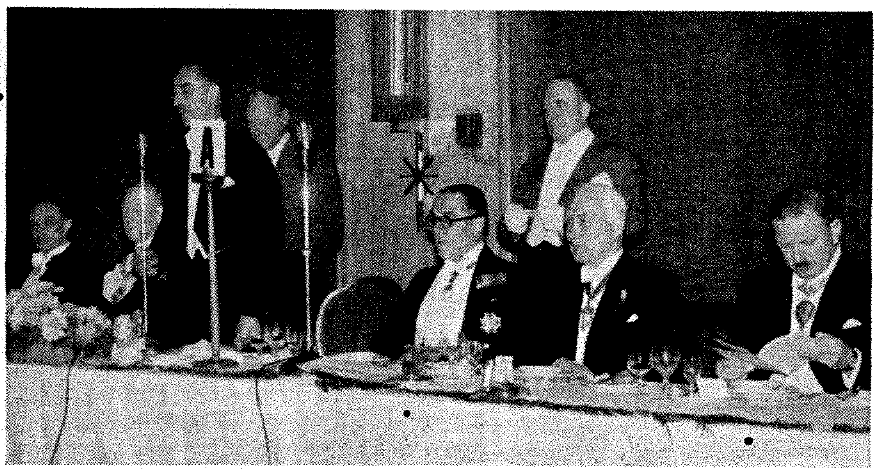
Among those present were:

Alderman Sir Harold Gillett, M.C., F.C.A. (*The Lord Mayor of London*); Mr W. L. Barrows, LL.D., F.C.A. (*President of the Institute*); Mr S. P. Chambers, C.B., C.I.E. (*Deputy Chairman, Imperial Chemical Industries Ltd*); The Rt. Hon. A. E. Samuels, LL.B., J.P. (*Chairman, London County Council*); Mr C. U. Peat, M.C., M.A., F.C.A. (*Vice-President of the Institute*); Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., D.L., F.C.A. (*a Past President of the Institute; a Vice-President of the Students' Society*); Viscount Monckton of Brenchley, P.C., K.C.M.G., K.C.V.O., M.C., Q.C. (*President, Institute of Bankers*); The Rt. Hon. Lord Ebbisham, T.D. (*President, London Chamber of Commerce*); Sir Harold Barton, F.C.A. (*a Past President of the Institute; a Vice-President of the Students' Society*); Sir Thomas Robson, M.B.E., M.A., F.C.A. (*a Past President of the Institute; a Vice-President of the Students' Society*); The Rt. Rev. Francis E. Lunt, M.A. (*Bishop of Stepney*); Mr Sheriff J. E. Evan Cook, J.P.; Mr Alderman and Sheriff R. E. Perring.

Mr William Jackson, F.A.C.C.A. (*President, Association of Certified and Corporate Accountants*); Mr J. W. Hough, O.B.E., F.I.M.T.A., F.S.A.A. (*President, Institute of Municipal Treasurers and Accountants*); Sir Edmund Compton, K.B.E., C.B. (*Comptroller and Auditor-General*); Sir Alexander Johnston, K.B.E., C.B. (*Chairman, Board of Inland Revenue*); Mr Douglas A. Clarke, LL.B., F.C.A. (*a Vice-President of the Students' Society*); Mr E. G. Hardman, F.C.I.S. (*President, Chartered Institute of Secretaries*); Sir Theobald Mathew, K.B.E., M.C. (*Director of Public Prosecutions*); Sir Harold Webbe, M.P., C.B.E., B.A., D.L. (*Member of Parliament for the City of London*); Mr J. S. Wilson, C.A. (*Chairman, Association of Scottish Chartered Accountants in London*); Mr E. Kenneth Wright, M.A., F.C.A. (*a Vice-President of the Students' Society*); Prof. Sir Arnold Plant, B.SC.(ECON.), B.COM. (*Sir Ernest Cassel Professor of Commerce, University of London*); Sir Sidney Roberts, M.A. (*Master, Pembroke College, Cambridge*); Mr J. A. Jackson, F.C.A. (*a Vice-President of the Students' Society*); Mr Brian Manning, D.L., J.P., F.C.A. (*a Vice-President of the Students' Society*).

Sir Bruce Wycherley, M.C., F.C.I.S. (*Managing Director, Abbey National Building Society*); Vice-Admiral H. P. Koelle, C.B. (*Vice-Admiral Supply*); Mr Geoffrey Lawrence, Q.C. (*Vice-Chairman, General Council of the Bar*); Mr R. P. Matthews, J.P., B.COM., F.C.A. (*Hon. Treasurer of the Students' Society*); Mr C. Fitzherbert (*Vice-Chairman, Barclays Bank*); Mr Leslie E. Peppiatt (*President, The Law Society*); Mr J. L. Watney, T.D.; (*Master, The Mercers' Company*); Mr F. Keighley (*Chief General Manager, National Provincial Bank*); Mr R. A. O. Bridge (*Deputy Chief Cashier, The Bank of England*); Mr J. H. James, C.B. (*Deputy Master, The Royal Mint*); Mr E. H. Nichols, T.D., B.A., LL.B. (*Town Clerk, City of London*); Mr F. G. Fleury (*President, Royal Institution of Chartered Surveyors*); Mr C. D. Morley (*Secretary, Council of the Stock Exchange*); Mr Martin O'Regan, B.SC.(ECON.) (*Chairman of the Committee of the Students' Society*); Mr A. W. C. Dascombe (*Secretary, The Bank of England*).

At the conclusion of the evening the company was entertained with a selection of folk songs by Mr Owen Brannigan.



The President of the Students' Society speaking at the dinner. *Left to right:* Mr S. P. Chambers, the Lord Mayor, Mr Parker, Viscount Monckton, Mr W. L. Barrows, and Mr E. A. Samuels.

EXETER CHARTERED ACCOUNTANTS' DINNER

The annual dinner of the Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants was held at *The Imperial Hotel*, Exeter, on Friday, December 5th. Mr N. G. Webber, F.C.A., Chairman of the Branch, presided over the company of 170 members and guests, and among those present were Councillor P. A. Spoerer, Deputy Mayor of Exeter; Alderman J. G. Warne, Sheriff of Exeter; Mr W. H. Lawson, C.B.E., B.A., F.C.A., Immediate Past President of The Institute of Chartered Accountants in England and Wales; Mr R. Dudley Williams, Member of Parliament for Exeter; Dr J. W. Cook, F.R.S., Vice-Chancellor of the University of Exeter; Alderman A. L. Goodrich, Ex-Mayor of Torquay; Mr J. S. Carter, M.A., Headmaster, Blundell's School, Tiverton; and Mr R. E. Foster, B.SC., F.R.I.C.S., F.A.I., Chairman, Exeter Chamber of Trade.

Exeter's Long History

The toast of 'The City and County of the City of Exeter' was proposed by Alderman A. L. Goodrich who referred to Exeter's long history and spoke of the re-building of the City since its severe bomb damage in the Second World War; the re-building, he said, was the pride of Devon. Councillor P. A. Spoerer responded to the toast.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr Carter said that he felt no organization could have self-respect unless it had self-discipline and a sense of service. 'You have got both those things', he added, 'and I am sure that is why we in this country and throughout the world hold you in such great esteem.'

Mr Lawson responded to the toast and expressed the hope that members of the Institute would be continually challenging the form of accounts in an objective spirit to ensure that a fair state of affairs was presented.

He went on to say that accounting practices should not be accepted without challenge just because they had always been carried out in a certain way in the past. As an example of the kind of thing he meant, he suggested that it might be fairer to shareholders if depreciating assets were shown on the other side of the balance sheet.

Well-attended Meetings

The toast of 'The Guests' was proposed by Mr Webber who commented on the good attendance at Branch discussion meetings and at lectures. Referring to his own business, he said that his company was always willing to accept whatever recommendations or decisions the accountant might put forward. This, he felt, was a great reflection on the honesty and integrity of the profession. He added: 'I believe the standing of the profession is such that one can happily open up one's business and say "In you come: look at everything". I believe the high regard in which the profession is held is by virtue of that fact.'

The response to the toast was made by Mr Foster who commented: 'I thought that at this time of year, when notices of assessment flowed into your offices, your demeanour would be one of funereal gloom, but I am glad to see that you can shake off your troubles and cares on behalf of your clients and enjoy yourselves in the way we have seen this evening. That is a very great attribute.'

Notes and Notices

PERSONAL

MESSRS MOODIE, YOUNG & Co, Chartered Accountants, of 203 Regent Street, London, W1, announce that as from Monday, December 22nd, their address will be Eagle House (West Block), 109 Jermyn Street, London, SW1.

MESSRS JONES, ROBATHAN, THOMPSON & Co, Chartered Accountants, of Mercantile Chambers, 13 James Street, Cardiff, announce that as from December 6th, 1958, their London offices have been removed to 2 Old Burlington Street, Burlington Gardens, London, W1.

MESSRS WHINNEY, MURRAY & Co, Chartered Accountants, of 14 Meir, Antwerp, announce that they have opened a branch office in Holland, at 41 Groot Hertoginnelaan, The Hague. The office will be in charge of Mr J. S. Ross who has been for many years engaged in their service.

MESSRS HUDSON SMITH, BRIGGS & Co, Chartered Accountants, announce that as from December 6th, 1958, their Bristol office formerly situated at Exchange Chambers, Bristol, 1, has been removed to St Giles House, Quay Street, Bristol, 1. The telephone number (Bristol 22108) remains unchanged.

MESSRS LANDAU, MORLEY & SCOTT, announce that their Ilford office formerly situated at 135A Green Lane, Ilford, Essex, has been removed to 124–126 The Grove, Stratford, E15. Telephone: Maryland 6848–9.

MESSRS H. P. GOULD & SON, Chartered Accountants, of 8 Upper King Street, Norwich, announce that Mr E. F. DE CARLE SMITH, F.C.A., who has been a partner in the firm since 1921, retired from the partnership as from November 5th, 1958: he will, however, continue to be available for consultation. As from the same date, Mr JOHN TURNER, A.C.A., who has been with the firm for some years, has been admitted to partnership.

MESSRS GRAHAMS, RINTOUL, HAY, BELL & Co, Chartered Accountants, of 105 St Vincent Street, Glasgow, C2, announce that Mr WILLIAM STRATHERN HENDERSON, C.A., and Mr WILLIAM CAMPBELL ALLAN, C.A., have been admitted into partnership. The name of the firm remains unchanged.

PROFESSIONAL NOTES

Mr Cecil C. Taylor, J.P., F.C.A., has been appointed deputy chairman of Morrison & Jones Ltd.

Mr H. Prevezer, F.C.A., has joined the board of the South American Assets Co Ltd.

Mr C. L. Walker, F.C.A., has been co-opted to the board of Hide & Co Ltd.

Mr R. D. Little, A.C.A., A.C.I.S., A.M.B.I.M., has been appointed secretary and financial controller of Simplex Electric Co Ltd, Stoke-on-Trent.

Mr R. M. Menzies, A.C.A., chief accountant to the Vitamins Group, has been appointed to serve on the Technical Advisory Committee of the British Institute of Management, concerned with management accounting.

Mr N. Hinton, A.C.A., and Mr P. D. Taylor, A.C.A., executives of Simon-Carves Ltd, have been appointed to the board of its recently acquired subsidiary, Lodge-Cottrell.

Mr Geoffrey A. Robinson, A.C.A., A.H.A., has been appointed secretary to the board of governors and chief financial officer of The National Hospitals for Nervous Diseases, Queen Square, London.

Mr Aidan L. F. Fuller, A.C.A., chief accountant of Robert Marriott Ltd, has been appointed secretary of the company.

Mr T. E. Steel, B.L., C.A., chief accountant of Ransome & Marles Bearing Co Ltd, has been appointed secretary.

MEMORIAL SERVICE

Mr Montagu Gedge, Q.C.

A memorial service for Mr Montagu Gedge, Q.C., whose death was announced in our issue of November 29th, was held at St Michael's, Cornhill, London, on December 5th. The Archdeacon of Hackney officiated and among those present were members of the accountancy and legal professions.

IN PARLIAMENT

Shares: Hire-purchase

Mr ARBUTHNOT asked the Chancellor of the Exchequer what action he is taking to correct the anomaly by which the joint-stock banks are discouraged, by directive, from lending money for the purchase of shares, while hire-purchase finance houses can, and do, finance the purchase of shares on hire-purchase.

Mr ERROLL: The banks have been asked, in framing their advances policy, to have regard to the guidance my right hon. friend the Chancellor of the Exchequer gave to the Capital Issues Committee on July 1st last that borrowing intended to finance the speculative buying or holding of shares, material or real property, should be discouraged. I note that a recent scheme for the purchase of shares on hire-purchase includes a provision specifically designed to prevent the use of the facilities for speculative purposes. I am glad to take this opportunity to say that I deprecate credit financing for speculative purposes.

Hansard, Nov. 28th, 1958. Written Answers. Col. 85.

£ Sterling: Value

Mr LEWIS asked the Chancellor of the Exchequer whether he will publish in *Hansard* a table of the figures giving the rise and fall in the purchasing value of the £ sterling for each of the months from January 1951 until December 1951, compared with January 1958, until the latest convenient stated monthly date, taking the £ as having a purchasing value of 20*s* in January 1951.

Mr ERROLL: Yes.

The internal purchasing power of the £, taking January 1951 as 20*s*, is shown below:

—	1951	1958
	s d	*s d*
January	20 0	15 1
February	19 10	15 2
March	19 8	15 1
April	19 4	14 11
May	18 11	14 11
June	18 10	14 10
July	18 7	15 1
August	18 6	15 1
September	18 4	15 1
October	18 3	14 11
November	18 2	
December	18 0	

The above figures are based on movements in the retail price indices during 1951 and 1958 and the change in the consumer price index between 1951 and 1957.

Hansard, Nov. 27th, 1958. Written Answers. Col. 80.

Company Balance Sheets

Mr LEWIS asked the President of the Board of Trade whether he will take the necessary action to amend the 1948 Companies Act to ensure that all private companies shall, on the written request of ten or more shareholders, or of the holder of more than £100 of the capital, issue an audited balance sheet of the company.

Mr J. RODGERS: The Act already gives all shareholders and debenture holders in every company the right to receive a copy of the audited accounts, including the balance sheet. Other creditors, including depositors, do not have this particular right but, as my right hon. friend explained to the hon. Member in his reply on November 20th, unpaid creditors can petition the Court for the winding-up of the company.

Hansard, Dec. 2nd, 1958. Written Answers. Col. 105.

ECONOMIC CONDITIONS IN BENELUX

The latest survey in the series on economic conditions of member countries of the Organization for European Economic Co-operation covers the three Benelux countries. The booklet is obtainable from H.M. Stationery Office, price 2*s* 6*d*.

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INSTITUTE OF COST AND WORKS ACCOUNTANTS

London Branch Students' Course

Over eighty registered students of The Institute of Cost and Works Accountants attended a successful one-day course at the Regent Street Polytechnic, London, W1, on Saturday, November 22nd. The course was devoted to the principal subjects of the Institute's examination syllabus, including accountancy, cost accountancy, and production methods and services.

The speakers included Mr H. W. Calvert, A.C.W.A.; Mr F. Cheetham, A.C.W.A.; Mr I. C. Coombs, A.C.A., F.C.W.A.; Mr W. A. Evans, F.C.W.A.; Mr E. J. Gee, A.C.W.A.; Mr C. G. S. Jennings, F.C.W.A.; Mr J. F. Keen, F.C.W.A.; Mr L. W. J. Owler, A.C.W.A., F.C.I.S.; Mr W. A. Patmore, A.C.W.A., A.A.C.C.A., F.C.I.S.

The course was organized by the committee of the London Branch, of which Dr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., A.C.I.S., is President.

REGIONAL COST CONFERENCE

A London Regional Cost Conference of The Institute of Cost and Works Accountants was held at the Connaught Rooms, London, recently. The main speaker was the Rt. Hon. Nigel Birch, former Economic Secretary to the Treasury, who spoke on 'Current developments in European trade'.

At the afternoon session, members discussed papers by Dr G. A. Kohnstamm and Mr S. C. Tyrrell, F.C.W.A., F.B.I.M., on, respectively, 'European integration: the continental viewpoint of the economic and other factors which lead to the Common Market', and 'A European Free Trade Area: problems and opportunities for the management accountant'.

THE INSTITUTE OF INTERNAL AUDITORS

London Chapter's Conference

The annual day conference of The Institute of Internal Auditor's London Chapter was held at *The Kingsley Hotel*, Bloomsbury Way, London, on Friday of last week. At the morning session, under the chairmanship of Mr J. O. Davies, F.C.A., the Chapter President, papers submitted by overseas members were discussed; subjects included: Defalcation in Ceylon; Defalcation in Johannesburg; Internal check for African soccer; Work of a productivity group in undertaking efficiency assignments. An interesting talk on 'Advertising' was also given by Mr P. R. Kemp, of Birds Eye Foods Ltd, using 'visual aids'.

At the afternoon session, when the chair was taken by Mr G. W. Morse, A.C.A., Chapter Vice-President, Mr Bernard S. Wheble, B.COM., F.I.B., of Brown, Shapley & Co Ltd presented a paper entitled 'The hall of tradition' (commercial credits finance), and an address on 'Integrated data-processing' was given by Mr P. C. Elliott, A.C.A., the Shell Petroleum Co Ltd.

The speakers at the various sessions and the editor of *The Accountant* were guests of the Chapter at the conference luncheon.

SUCCESS OF R.A.P.C. COMMISSION SCHEME

Largely as a result of publicity given earlier this year in this and other professional journals, the War Office states, the scheme for granting qualified accountants direct National Service Commissions in the Royal Army Pay Corps has met with such success that it has now been terminated.

Opportunities still exist, however, for the grant of direct Short Service Commissions, and the War Office is always anxious to receive applications for permanent regular commissions.

National Service commissions, of course, continue to be available to National Servicemen during the course of their training; it is only commissions granted prior to joining that have been curtailed.

CENTRAL LONDON DISCUSSION GROUP

The next meeting of the Central London Discussion Group of the London and District Society of Chartered Accountants will be held next Wednesday, December 17th, at 6.30 p.m. at *The Lamb and Flag*, 33 Rose Street, (off Garrick Street), Covent Garden, London, WC2, when Mr L. F. Coker, of the Northern Assurance Co Ltd, will speak on 'Some comments on the White Paper on state pensions'. Light refreshments will be available from 6 p.m. Those intending to be present are asked to communicate with the honorary secretary, Mr Stanley Dent, A.C.A., 71 Great Russell Street, London, W1. Telephone: Chancery 4722.

ANNOTATED TAX CASES

Part 5 of Volume XXXVII of the *Annotated Tax Cases*, edited by Mr Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *Independant Television Authority and Associated-Rediffusion Ltd v. C.I.R.* (Ch.D.); *Newton v. Federal Commissioner of Taxation* (P.C.); *Chick v. New South Wales Commissioner of Stamp Duties* (P.C.); *The Public Trustee (Lord Northcliffe's Trustee) v. C.I.R.* (C.A.); *Pye-Smith v. C.I.R.* (Ch.D.); *Coats' Trustees v. Lord Advocate* (C.S.); *West v. Phillips* (Ch.D.); *Thomson v. Moyse* (Ch.D.); *Fry v. C.I.R.* (C.A.); *Bullock v. Unit Construction Co Ltd* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30*s*, post free; the publishers are Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

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CHARTERED ACCOUNTANTS' HOCKEY CLUB

Institute XI 2 Law Society XI 2

The tenth annual match between the Institute and the Law Society resulted in a draw of two goals each. The Institute took the initiative from the start and pressed the Law Society. D. Cecil obtained the first goal which rebounded off the goalkeeper's pads into the net. The Law Society forwards attacked frequently but S. N. Elgar made some good clearances and M. A. Charlton and G. A. Davis broke up a number of Law Society sorties.

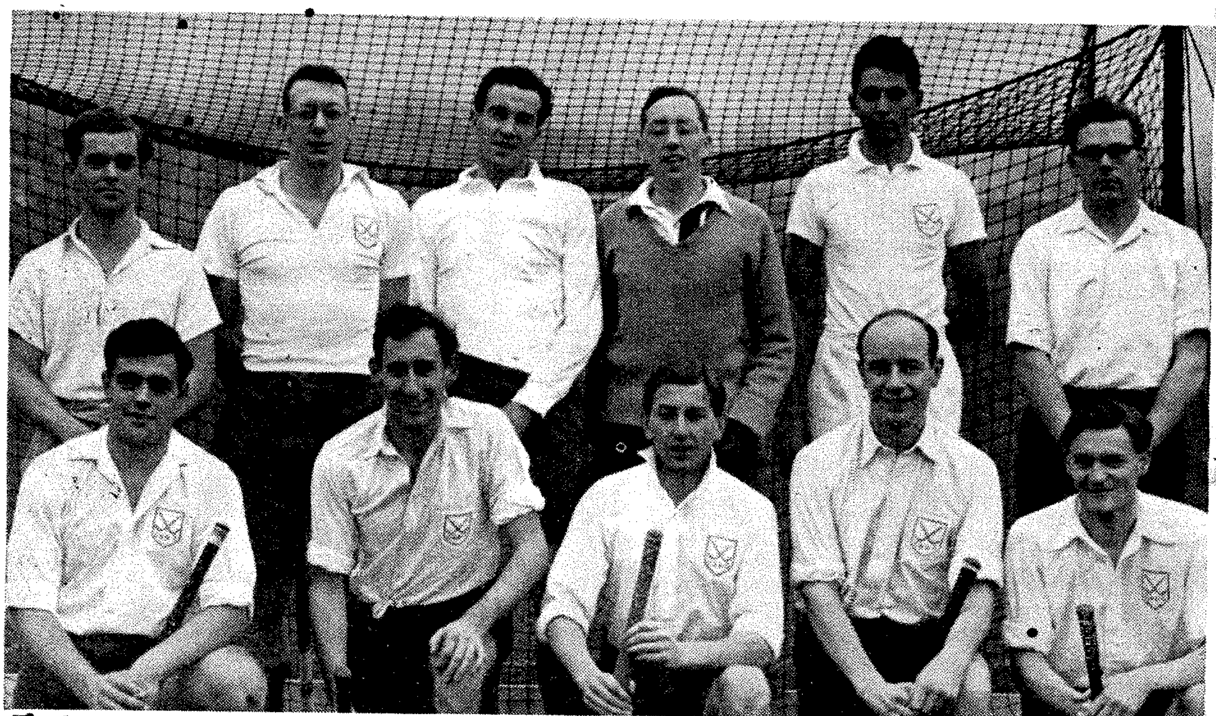
The Law Society forwards played a forceful game after half-time and the Accountants' goal-mouth was frequently in danger. D. Cecil broke away again and scored a second time for the Accountants. S. J. Titcomb almost secured a third goal but was robbed of the ball on the point of shooting. The latter part of the game saw the Law Society forward line gaining greater cohesion and, in the gathering gloom, two goals were scored by them in quick succession to bring the game to an end with an even score.

RESTRICTIVE PRACTICES REPORTS

The first two parts of a new series of reports of cases heard before the Restrictive Practices Court have now been published by The Incorporated Council of Law Reporting for England and Wales. Apart from decisions reached by the Restrictive Practices Court, the new series will also include decisions of the High Court in cases arising under the Restrictive Practices Act of 1956, together with appeals.

Part I of Volume I deals with the cases of: *In re Austin Motor Co Ltd's Agreements; In re Chemists' Federation Agreement; County Laboratories Ltd v. J. Mindel Ltd; Dunlop Rubber Co Ltd v. Longlife Battery Depot (a Firm); Goodyear Tyre and Rubber Co (Great Britain) Ltd v. Lancashire Batteries Ltd.* Part II of the new volume reports on *In re Chemists' Federation Agreement (No. 2).*

The reports will be published in parts as soon as practicable after judgment has been given. Each volume will consist of approximately 500 pages at a subscription rate of £8 8s per volume, post free.



The Institute Hockey XI: *Standing, left to right:* S. D. Rathbone (Reigate); M. A. Charlton (Rickmansworth) Captain; S. J. Titcomb (Keymer); S. N. Elgar (Hampstead); A. Lawes (Richmond); D. Cecil (Dulwich). *Kneeling (left to right):* G. A. Davis (Merton); A. C. A. Myers (H.A.C.); B. Clarke (Purley); M. H. Waller (Dulwich); J. A. Hume (Barnet).

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THE ACCOUNTANT

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Greetings

To our many friends and readers the world over, we extend our good wishes for a Happy Christmas and a Bright and Prosperous New Year.

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How to Increase Business Efficiency

THE contribution which the trained accountant is making towards business efficiency is daily being demonstrated in countless boardrooms and executive suites. In addition, the services which the accountant in public practice is now giving to industry and commerce are steadily becoming more impressive both in volume and variety. These situations are widely acknowledged and accepted but they often inspire a very fair question – where and how does the accountant acquire the esoteric knowledge to enable him expertly to advise the experts?

The process is largely one of evolution. Both the examination curricula of the professional bodies and the practical experience which the clerk obtains in his master's office are designed to give him a general rather than a specialized training. Here first is the broad base which gives the embryo accountant balance. Then comes the invaluable period immediately after qualifying when the new-fledged member, relieved of examination responsibilities, fairly finds his feet as he learns the finer techniques of his job. It is at this stage that he forms predilections as to the ultimate course of his career. If he elects to concentrate on management accounting, either in an advisory capacity as a practising accountant or by obtaining a whole-time position in industry, he will almost certainly discover that the first few years in his new field are as educative as any that have gone before and that, in order to make the most of them, he will no doubt find that he has to consolidate and expand his practical experience with a measure of specialized reading, particularly the kind which puts the subject properly in perspective without undue elaboration.

Into this category of reading assuredly falls the new publication of the Council of The Institute of Chartered Accountants in England and Wales, referred to in a Weekly Note in our last issue.[1] Its purpose is to give an outline of a number of effective ways of promoting efficiency, the methods illustrated being applicable to as many businesses as possible with the reservation that its treatment of the subject is not exhaustive and that, in a field of such magnitude, finality cannot be reached in forty-five pages.

The notes are divided into nine sections, the first two of which deal respectively with materials and labour. Methods of control over the acquisition, handling, storage and usage of materials

[1] *Business Efficiency: the Contribution which the Accountant can make.* The Institute of Chartered Accountants in England and Wales, Moorgate Place, London. 5s (inclusive postage, except airmail).

are suggested and the importance of holding the balance between having adequate stocks to ensure continuity of production and locking up capital by carrying a permanent surplus is emphasized. Involved, however, as are the problems of supervising the movement of inanimate material, they have not the complexity of those connected with the measurement of the performance and cost of labour where so many factors human and otherwise – absenteeism, overtime, casual labour and individual temperament are a few – have to be reckoned with. The main considerations are the assessment of the performances of individuals, groups and departments with special regard to the relationship between quality and quantity and, needless to say, the methods by which labour is remunerated. The records kept should have three main functions – to measure actual performance both as to volume and standards of workmanship; to provide the data to enable a satisfactory wages structure to be operated; and to be instruments for the control of labour.

The next section – on fixed assets – is as informative as any. Here again the importance of having adequate records to ensure that the most economic use is being made of that portion of the capital employed invested in property and plant, is stressed. Among other matters reviewed at some length are the allocation of expenditure between capital and revenue, depreciation, inspection and maintenance and operating efficiency. Statistics should also be available, it is suggested, concerning the running performance of specific items of machinery as well as details of plant utilization and such ratios as, for example, sales as a percentage of the cost of fixed assets, the cost of fixed assets per employee and the power consumption and installed horse-power per manual worker. In many an ostensibly well-run company with apparently fully adequate records, information regarding the history and capacity of fixed assets is very often hard to come by. The observations of the Council on the need for more detailed documentation and the uses to which it may be put deserve careful study.

The three principal heads of expenditure in most businesses are materials, labour and fixed assets. It is logical, therefore, that in view of what has gone before, the fourth section of the Council's notes should deal with the control of expenditure. The main method suggested is budgeting and in the fifth section – on sales and distribution – budgets are again recommended as the principal means of gauging the efficiency of the selling side of an organization.

The last four sections are devoted to some over-all checks which may be imposed. The first of these explains the ways of keeping a watch on the relationship between volume of output and cost by means of break-even charts which may assist, also, in the making of profit forecasts and in policy decisions regarding new lines. Price determination is covered in the next section and, although it may seem obvious to say so, the selling price depends on the maintenance of proper cost records integrated or reconciled with the financial books.

Consideration of the return to be expected on capital employed and ways of determining its sufficiency, occupy eight pages – the longest single section of the notes. The ratio of profit earned to the money invested to earn it has, the Council submits, three main uses – as a check on the operating efficiency of the concern as a whole; as a direction post to the trend of future development, if any is contemplated; and as a mirror reflecting the efficiency of management. The question as to what return on capital should be sought is also important. The notes end with a final section on financial management – some precepts, with an example, on cash budgets.

In an article[1] on a previous Council publication, *Notes on the Allocation of Expense* – which, incidentally, may profitably be re-read in conjunction with the above-mentioned section on the control of expenditure – we said that the impression that the subject-matter did not appear profound to an accountant might have been an illusion caused by the Council's skill in clarity of exposition. The same remark could equally well be applied to this latest publication which is written so lucidly as to make the subject seem simple. The principal points to be taken are iterated with unmistakable cogency. These are that constant vigilance, with an eye to effecting continuous improvement, is essential if the efficiency standards of a business, measured in comparative terms, are to aspire to the absolute; and that every pound of capital, as well as every ounce of labour, must be deployed if a business is to maintain economic independence.

[1] *The Accountant*, November 24th, 1951.

Principles of Double Taxation Relief

by PETER D. TAYLOR, A.C.A.

'SIR?'

'Come in John.'

'Can you spare me a moment, please?'

'Certainly. What's the trouble? Consolidated accounts still bothering you[1]?'

'Yes; but I've another trouble now. Double taxation.'

'We're all in the same boat, John. What do you want to know?'

'I'm afraid I just can't make head or tail of the subject, sir.'

'Well, like all these difficult subjects you have to find the main principles and be quite clear about them before going into the mass of detail.'

'Are there any principles?'

'Indeed there are, John. You know what we mean by double taxation relief?'

'Yes, sir. We are trying to avoid the payment of U.K. tax and foreign tax on the same income.'

'Right. Well it's done in three ways: first by a specific double tax agreement between this country and certain foreign countries. The general authority for these agreements is given under the 1952 Income Tax Act. Just a minute, I'll tell you which section.'

'Should I try to remember the section, sir?'

'Yes, John, make a note of it; it helps you to get the whole subject into perspective. Here it is: Section 347. And some of the details are contained in the Sixteenth Schedule.'

'I've got that, sir.'

* * *

'Next, John, is unilateral relief. Section 348.'

'Unilateral means one-way, doesn't it sir?'

'Correct. Relief is given to the U.K. taxpayer, without there necessarily being any similar relief available to the foreign taxpayer. Unilateral relief applies where there is no specific double taxation agreement.'

'Shall I make a note, sir? What section was it?'

'Section 348, and details are in the Seventeenth Schedule. Finally John, if neither of these apply, the foreign tax may be deducted from the foreign income before tax is charged over here. Incidentally, I think that it's an Inland Revenue concession.'

'That's not full relief then, sir?'

'No, John, only partial.'

'To recap., sir; I thought you said that unilateral relief always applied if there was no agreement.'

'Yes it does, but there may be cases where foreign tax is paid though the rules of the income tax Acts do not allow credit. That's when the tax would be deducted from the income.'

'It's not tax against tax then, is it, sir?'

'No. All right so far. That's the broad outline.'

'What about dominion income tax, sir? Isn't that something to do with it?'

'It used to be John, but not now. It finished in 1950–51, except for special provisions applying to the Irish Republic.'

'What are those, sir?'

'I should leave those for the moment, John. Just remember that Ireland is a special case.'

'I think I've got that so far, sir. There is one thing though; I've read somewhere that the unilateral relief is not for the full amount. So it's not strictly tax against tax.'

'You're wrong John. There used to be a limit to the unilateral relief, three-quarters for Commonwealth countries, half for others, but that finished some years ago.'

'So I can forget that, too, sir. It's a good thing there's something to forget as well as something to remember!'

* * *

'Now back to the beginning again. The first of the three ways of avoiding, or minimizing, double taxation – by a special agreement.'

'Are the agreements different for every country, sir?'

'Steady; there are only agreements with certain countries – most Commonwealth countries, the United States, France, Austria and others.'

'Not India?'

'Not India. Now, back to your question. Each country has a different agreement, but they all tend to follow the same pattern. Let's look at a typical one, Austria. Here we are. "The Double Taxation Relief bracket Taxes on Income end of brackets bracket again Austria end of brackets Order 1957".'

'Sounds pretty serious, sir.'

'Yes, this legal jargon takes a bit of sorting out. Anyway I'll try and summarize it and then you'd better take it away and do a bit of studying.'

'Right'.

[1] See the author's 'Principles of Consolidation', *The Accountant*, November 26th, 1955.

'First, John, it defines which U.K. taxes are involved, in this case income tax, surtax, profits tax and excess profits levy.'

'I thought E.P.L. was one of the other things I could forget, sir.'

'I shouldn't worry about it. Next the agreement mentions the Austrian taxes which apply as those of substantially similar character to the U.K. taxes.'

'That sounds to me like an easy way out, sir.'

'Nevertheless, that's the way its done. Then after the definitions, the agreement provides that profits allegedly earned abroad shall not be taxed there unless the U.K. company or individual has a permanent establishment over there; and a similar clause gives the same protection to an Austrian firm.'

'Sir, what's a permanent establishment?'

'It's defined in the agreement, John. Look it up.'

'Sorry.'

'Where was I? Oh yes, now in addition to profits where there's no permanent establishment, certain other income is not taxable abroad. Royalties, for example, and certain remuneration. And the Austrians get the same protection again.'

'Bilateral?'

'Or reciprocal. I take it you're with me so far?'

'Yes sir.'

'After exempting these particular items the agreement deals with income that is still doubly taxed.'

'How?'

'By setting off tax against tax John, but subject to certain limitations contained in the Sixteenth Schedule.'

'Where do tax credits come in, sir?'

'That's just what we are talking about now.'

'Oh!'

* * *

'I'll come back to the Sixteenth Schedule in a minute. Let's look at the second main way relief is given – by unilateral relief.'

'That's when there's no D.T. agreement you said, sir?'

'Yes John. And that's all there is to it, except for the actual calculation of tax credits under agreements. But just before we go into that, let's look at the third way of getting relief.'

'That was by deduction of foreign tax, wasn't it? Though I still can't see why unilateral relief wouldn't apply. Can you give me a for instance?'

'A what?'

'Sorry sir. An example.'

'Oh! I heard of a case once. You see to qualify for tax relief here, the income must actually arise abroad. It can happen that our tax people reckon that tax doesn't really arise in the foreign country, and yet the foreign tax people tax the income. Strictly speaking, the tax may not be set off against tax, in which case, it is deducted from the income before charging it to U.K. tax.'

'Is that sort of thing very common, sir?'

'No, I don't think so, John. But bear it in mind.

* * *

'Have you got the general picture, John?'

'I hope so, sir.'

'Well, now to calculations of tax credits. Here's where the examination questions are set. You had better make some notes.'

'I'm ready.'

'The relief only applies to U.K. residents; if it's a company paying profits tax, the foreign tax is first set off against the profits tax, the balance against income tax. But note that for this purpose you can only use the profits tax applicable to the income in question.'

'Is there any limit to the credit against income tax?'

'Yes there is, John, a very important limit – to the effective U.K. rate.'

'I know what that is, sir, total tax divided by total income.'

'Yes. Two small points when calculating total income: charges may be deducted, but not life assurance relief. Now a more important point. Tax relief is limited to the total tax paid. It's fairly obvious; putting it another way, the tax relief is the lesser of the foreign and the U.K. tax.'

'That's sorted out some of my queries, sir. Did you mean to include surtax in what you just said?'

'No John. Though in fact it amounts to the same thing. For a surtax payer you add two rates to get the effective rate. Income tax over total income plus surtax over total income.'

* * *

'That all sounds reasonably simple sir. But questions always seem much more difficult.'

'Yes, there is one more major complication, John. The calculation of the total income.'

'That's usually fairly easy.'

'But not in this case, because you see it includes the foreign income on which the foreign tax has been charged.'

'More notes, sir?'

'Nearly finished now, John. Yes, the rules are in the Sixteenth Schedule again. Generally

speaking only non-allowed tax is deducted from the income for calculating the foreign income to be included in total income. Dividends are grossed up by the rate of credit allowed, not the actual foreign tax.'

'That sounds a bit complicated, but I think I've got it.'

'Well hold tight, John, the next bit *is* complicated. It applies to an individual entitled to reliefs. The schedule provides for a two-stage calculation. First calculate the gross dividend and effective rate by reference only to direct taxes.'

'Like the U.S. withholding tax, sir?'

'Good for you, John. Yes. Second stage – calculate the tax liability using the new gross dividend.'

* * *

'That's the end of tax credits; you can take it that more or less the same applies for calculations under unilateral relief. Read the Seventeenth Schedule which lists the differences.'

'Is that all, sir?'

'One final thought, John. Remember the importance of the subject to people who claim repayment of tax.'

'Yes sir. Thank you very much.'

'Any time, John, you know that.'

African Commentary—X

by R. E. ELLMER, M.A.(Cantab.), A.C.A., A.C.I.S.
Senior Lecturer in Accountancy, Royal Technical College of East Africa, Nairobi, Kenya.

Balancing Charges and their Insurance

WRITING in the quarterly *South African Accountant* for June last, Mr G. H. Gordon, F.C.I.I., considers the effect of Section 11 (4) (*a*) of the Income Tax Act of the Union of South Africa, which he explains thus:

> 'Plant and machinery, motor vehicles, office furniture and equipment, and sometimes stock are, for tax purposes, written down year by year, on account of wear and tear, on various formulae permitted by the Revenue authorities, and on that basis a tax relief is obtained by the taxpayer. The effect of the above-mentioned section of the Income Tax Act is that any amounts thus set-off for tax relief over the years which are recovered or recouped have to be included in the taxpayer's current income, and, as "income tax" means what it says, viz. "a tax on income", tax has to be paid thereon after all; and at *current* rates, at that.'

Mr Gordon continues by declaring that the effect of the section can be taken care of in the normal course of financial planning where controllable factors are encountered, e.g. sale of machinery and normal replacement from the proceeds of sale and sinking fund. What, however, would be the position where valuable fixed assets are destroyed by fire?

The situation is illustrated by the following example:

> 'Supposing –
>
> (i) the original price paid for the plant and machinery in a factory is £100,000, and due to present-day conditions a lot of it has appreciated in value despite its age, which warrants the whole of it being insured against fire, explosion, and riots for that same figure of £100,000 on an ordinary form of indemnity policy;
>
> (ii) the wear and tear deduction for tax relief over the years has been £60,000; and
>
> (iii) the written-down value for tax purposes is therefore £40,000.
>
> (iv) The factory and its contents are then completely destroyed or rendered useless by fire, and the proceeds of the fire policy are £100,000.'

Given the above facts, the article points out that of the £100,000 received from the insurance company, £60,000, i.e. cost less wear and tear allowance, will be taxable at six shillings in the £, producing a sum of £18,000 to be claimed by the Revenue.

Mr Gordon next considers the action to be taken in guarding against such losses. He advocates the balancing charges policy, 'pioneered in the world, except for a few special cases, by its recent introduction to South Africa'.

Implications of Rome Treaty for East Africa

Writing in *The East African Economics Review* for July last, Mr T. M. Loudon deals with the effect of the Treaty of Rome, a commercial treaty made between West Germany, the Netherlands, Belgium, Luxemburg, France and Italy, on the

economy of East Africa. The objects of the conference are 'to harmonize the economies of the six members, to expand them, and to provide stability and an improved standard of living'. In other words, a customs union is in being, to which has been added the dependent overseas territories of the six European countries.

Mr Loudon sees a threat to the agricultural exports of the East African territories in this customs advantage given to the dependent overseas territories of the six countries. Giving overall figures, it is shown that approximately 20 per cent of the entire trade of the East African territories in 1956 was attributable to the six European countries which have now formed the customs union. Taking the export of coffee as an example, it is thought that the whole of the 500,000 metric tons consumed annually by the six could, in due course be supplied by their own dependent territories. As Mr Loudon states, 'it can readily be seen that there is a very considerable danger indeed to over one-third of East Africa's total coffee exports'.

Concluding his article, Mr Loudon asks the question, what is to be done? He replies,

> 'The only possible answer to that question is that we must keep a very close eye on how the community (i.e. the six countries) develops, the way in which it decides to use its powers, the way in which it decides to invest its money or to encourage development, and take, within the appropriate constitutional means, such steps as we can to prevent damage to ourselves.'

South African Textile Industry

An article in the July issue of *The South African Journal of Economics* by Mr C. Bak of the University of the Witwatersrand examines the report of the Board of Trade and Industries on the textile manufacturing industry in the Union of South Africa, and disagrees with the report's opinion that the vertically integrated business is the right type for the cotton textile industry in the Union.

As a general rule, Mr Bak points out,

> 'the conclusion can be drawn that those industries which produce low- and medium-priced bulk articles appear to be of the integrated type, while the non-integrated type of business seems to be most economical for the production of high-quality goods.'

But this general rule cannot be applied to South Africa, for although the Union produces mainly low- and medium-priced bulk cotton goods, many factors peculiar to South African conditions demand that the industry should develop on non-integrated lines.

In support of his argument Mr Bak states:

> 'The undeveloped state of the textile industry in the Union, the lack of skilled textile technicians, and the "raw" state of the labour class are factors which make it extremely difficult to put successfully into operation an integrated business. It is a gigantic task to train simultaneously spinners, weavers and finishers with a limited number of textile technicians.'

Of special interest in the article are seven advantages which characterize the non-integrated enterprise, viz.:

(1) Less capital outlay for investment in fixed assets.
(2) Better opportunity of selecting suitable personnel as the labour force needed is smaller.
(3) Operatives become more efficient quicker.
(4) Lower percentage of waste and rejects.
(5) Lower rate of labour turnover.
(6) Greater flexibility in the production process because the various departments are independent.
(7) The enterprise will reach the competitive stage sooner, and the period of 'infancy' will be shorter.

East African Income Tax

Fears that the effective rate of chargeable tax on the profits of controlled companies will be 15*s* in the £ were 'misapprehensions', said Mr Hinchey, Financial Secretary of the East Africa High Commission, when moving the second reading of the Income Tax (Management) Bill in the Central Legislative Assembly.

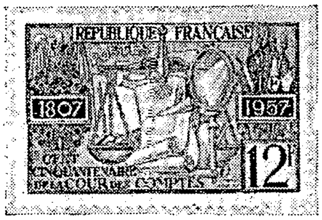
According to the *East African Standard*, Mr Hinchey stated that the rate of Shs.9/50, (the special rate applicable to undistributed profits) was designed to ensure that the private company's income taxable at the standard rate of Shs.5/50 in the £ would bear something approaching the maximum individual rate of 15*s* in the £ if it remained undistributed for the avoidance of tax at the maximum rate.

The Financial Secretary told the Assembly that he felt the maximum individual rate of 15*s* in the £ was 'pretty high', but for some time this burden must continue. Referring to claims that the new tax measures would prove to be discouragements and disincentives, Mr Hinchey said it was political instability and social immaturity which were now recognized as the major cause of economic insecurity. A sufficiently high level of taxation was indispensable to economic stability.

Mathematical Postage Stamps

by ALFRED H. HAYNES

IN 1957, France commemorated the 150th anniversary of her Court of Accounts by issuing a special 12 franc stamp. Coloured blue and brown, the stamp shows a magnifying glass, a pair of scales and other emblems symbolizing the importance to the Republic of the national system of audit. That accountants all over the world should be eager to acquire a specimen of a stamp which has a direct bearing on their day-to-day work is not surprising; what is not generally realized, however, is that besides the French audit stamp there are scores of others which are of peculiar interest to accountants. Known as 'mathematical' stamps, they range from a 1953 Chinese stamp bearing a design of a drum-cart for measuring distances (A.D. 300), to a recent Israel stamp showing dancing children forming the shape of the figure ten. During the past thirty years, rather more than a hundred such stamps, all bearing different designs, have been issued in countries ranging from Afghanistan to Venezuela.



Symbols of Audit

Pythagoras Theorem

As defined in the *Oxford Dictionary*, mathematics is the science of space and number in the abstract. Although it seems quite clear from the Ahmes papyrus (*circa* 1700 B.C.) in the British Museum that algebra and geometry were not unknown to the ancient Egyptians, mathematics as we know it today is generally believed to date from the Ionian and Pythagorean schools of 600–400 B.C. This immediately brings into focus the set of stamps issued by Greece in 1955 to commemorate a Pythagorean congress held during that year; on two of the stamps is to be seen the celebrated mathematician seated in front of a pedestal. Of the four stamps in the set, the most interesting is undoubtedly that valued at $3\frac{1}{2}$ drachma; coloured black, the stamp shows a representation (shades of schoolboy days!) of the Pythagoras theorem.


Theorem of Pythagoras

The author of the first elementary textbook on geometry, Hippocrates (470–377 B.C.) is featured on three values of a long set issued in 1947 to celebrate the restoration of the Dodecanese Islands to Greek sovereignty. A further Greek stamp, placed on sale in 1956, shows the features of Aristotle; it will be recalled that, amongst other things, Aristotle was deeply interested in mathematical physics and he it was who first propounded the important theory that two weights which keep a lever in equilibrium are inversely proportionate to the length of the arms of the lever.

The Pope-mathematician

In the tenth century, there lived the Persian-born philosopher, physician and mathematician, Avicenna; such is the fame which has accrued to him that his portrait appears on stamps of at least five widely separated countries.

Contemporary with Avicenna was Pope Sylvester II, more familiarly known as Gerbert. Possessed of a brilliant mind and considerable tutorial abilities, Gerbert was also of an inventive nature – so much so that, when people saw his steam-driven pipe-organ and other curiosities, they perpetrated a rumour that he had made a bargain with the devil! Such a libel did not, however, deter Gerbert and he it was who conceived the idea of marking with different characters the beads on the abacus; known as apices and representing the numbers one to nine, these characters had the effect of giving a numeric representation to the hitherto exactly similar beads. Amongst Gerbert's written works were one on arithmetic and another on geometry. The Pope who was also a mathematician is to be seen on a stamp issued by Hungary in 1938.

Amongst those who made a contribution to the advancement of mathematics during the fifteenth to seventeenth centuries were such men as da Vinci, Copernicus, Durer, Mercator, Brahe, Descartes, Galileo, Kepler, Pascal and Huygens, and the portraits of all these are to be found on postage stamps, da Vinci having been featured in the designs of no less than eleven widely separated countries. National pride in the fact that Copernicus was born at Thorn is reflected in the issue by Poland between 1923 and 1955 of seven different stamps bearing his portrait. What a

vivid contrast there is here between continental and British attitudes towards stamp designs! The fact that it has been left to France to pay philatelic tribute to our own Sir Isaac Newton must surely speak for itself. The French stamp was issued in 1957.

Sir Isaac Newton

In the years that have passed since the early eighteenth century, there has been much controversy and argument as to who it was first discovered the differential calculus. One school of thought claims that it was Newton who did the spade-work and that, in all fairness, the honour must go to him. An opposing school holds that the German-born Leibnitz arrived at his conclusions quite independently of Newton and that he was, in fact, the discoverer of the calculus. As to which school of thought is right has no place in this article – suffice to say that Leibnitz has been considered to be sufficiently eminent in Germany as to warrant his portrait being printed on stamps issued in 1926 and 1950.

Following in the steps of Newton and Leibnitz came the four great mathematicians Euler, Lagrange, Laplace and Legendre; briefly, it may be said that Euler extended the work of his predecessors, Lagrange developed the infinitesimal calculus, Laplace improved on it, while Legendre made important additions to the theory of numbers. With the exception of Legendre, all have received philatelic honour, Germany, Russia and Switzerland each having featured Euler on stamps issued in 1957.

Adoption of Metric System Commemorated

During the lifetime of Lagrange and Laplace (both of whose portraits are on stamps issued by their native France in 1958 and 1955, respectively) the French National Assembly adopted the metric system. In commemoration of the 150th anniversary of this important event in 1954, France placed on sale a single 30 franc stamp bearing a design of a winged angel measuring with a pair of compasses a portion of the earth's globe.

One of the great names associated with the development of mathematics during the first half of the nineteenth century was Karl Gauss; amongst his celebrated works was *Disquisitiones Arithmeticae*, a treatise which, even today, is regarded as a standard work on the theory of numbers. Gauss died in 1855 and, in commemoration of the centenary of his death, West Germany in 1955 arranged for the issue of a special 10 pfennig stamp bearing his portrait. Printed in green, the stamp is remarkable both for its clarity and for the meticulous manner in which the engraver has paid attention to facial detail. On an Irish stamp of 1943 is to be seen Sir William Rowan Hamilton – famed for the discovery of the theory of quaternions.

Twentieth-century Mathematicians

And what of the mathematicians who have lived in our own twentieth century? Armero, who died in 1920, is featured on a Colombia stamp of 1949; the Hungarian-born Baron Eotvos is to be seen on two stamps issued by his native country in 1932 and 1948; Kucera (1857–1931), Lorentz (1853–1928), Poincare (1854–1912) and Teixeira (1851–1933) similarly appear on stamps issued by Yugoslavia, Holland, France and Portugal in 1957, 1928, 1948 and 1952, respectively. In 1948, the ashes of the French mathematicians Paul Langevin (died 1946) and Jean Perrin (died 1942) were transferred to the Pantheon; commemorating their memory, France arranged for stamps bearing their portraits immediately to be placed on sale.

Einstein and Energy Equation

Perhaps the most interesting of all the stamps relating to the moderns, however, is the 1956 Israel stamp commemorating Professor Albert Einstein; flanking the mathematician's bearded features are the symbols of the equation $E = mc^2$ (Energy = Mass × Speed of light squared) on which dictum his famous theory of relativity is founded.

Of special significance to accountants, the postage stamps issued by both Cuba and Brazil[1] in 1953 to commemorate the holding of accountants' conferences need to be mentioned.

Although a number of other stamps on the theme of mathematics might be mentioned, the final reference must, however, be to three stamps issued by Spain in 1956. Of special interest to accountants, the stamps were designed to serve the purpose of commemorating the 'centenary of statistics' (whatever that may mean!) by Spain. Each stamp shows a building on one wall of which is drawn a graph; why the graph proceeds in a downward direction with its terminal point at 'o' is not explained!

[1] See *The Accountant*, May 9th, 1953, page 580.

A CHRISTMAS GAZETTEER

The numerical order of the answers (given on another page) is also the alphabetical order.

1. What is the capital of New York State?
2. Which Suffolk town was the setting of Crabbe's poem, *The Borough* and Benjamin Britten's opera, *Peter Grimes*?
3. On what river was the fabulous city of El Dorado said to be located?
4. Where is the Weddell Sea?
5. Where did G. K. Chesterton and his friends go to 'by way of Brighton pier' in the poem, *The Rolling English Road*?
6. What is the island at the entrance to New York harbour on which stands the Statue of Liberty?
7. In which American city, was it said –
   '... the Lowells talk to the Cabots,
   And the Cabots talk only to God'?
8. For what Parliamentary constituency is the Prime Minister the member?
9. What large South American city has a name descriptive of the climate of the district?
10. 'Nobly, nobly Cape Saint Vincent to the north-west died away;
    Sunset ran, one glorious blood-red, reeking into ... ' Where?

* * *

11. What naval victory over the Dutch was won by Admiral Duncan in 1797?
12. What seaport in South Carolina gave its name to a popular dance of the nineteen-twenties?
13. To what country does Claudio Arrau, the pianist, belong?
14. What villages did the poet A. E. Housman describe as 'the quietest places under the sun'?
15. Where in this country did Julius Caesar first land?
16. In which Dutch city did the painter Vermeer spend his entire life?
17. What town is the Casterbridge of Thomas Hardy's Wessex novels?
18. To what town did David Copperfield walk to seek out the only relative he had in the world?
19. Of what city is Donnybrook a suburb?
20. What was the Roman name for York?

* * *

21. What was the birthplace of Thomas Carlyle?
22. Where is the Advocates' Library?
23. Where was the temple of Diana, one of the reputed seven wonders of the ancient world?
24. What Scottish county is known as 'the Kingdom'?
25. Which Department of France is in the extreme north-west corner of the country?
26. What is the smallest county in area in Wales?
27. Which Italian city did the Medici family dominate for more than two centuries?
28. What is the other name for the valley of Hinnom, the place of eternal torment?
29. What is the longest canal in the world?
30. What town in the south of France, the birthplace of the painter Fragonard, is noted for the manufacture of perfumes?

* * *

31. Where is Mani, the subject of a recent travel book by Patrick Leigh Fermor?
32. What Basque town, the scene of a savage air raid during the Spanish Civil War, gave its name to a striking painting by Picasso?
33. What urban district of the West Riding of Yorkshire is associated with the Brontë family?
34. What was the classical name for the Dardanelles?
35. What town in Cornwall celebrates the annual festival known as the Floral Dance?
36. In which English county is the goldfinch known as 'King Harry'?
37. Where is the Zion of the Latter Day Saints?
38. What town stands at the north-eastern end of the Caledonian Canal?
39. What was the birthplace of Cardinal Wolsey?
40. In what country would you expect to drink a kind of brandy called Grappa?

* * *

41. What European country was once known as Ausonia?
42. What was the island home of Ulysses?
43. What Scottish border town lent its name to the form of justice which hangs a man and tries him afterwards?
44. Which is the largest in area of the Channel Islands?
45. What is the country seat of the Curzon family?

46. What town in England has given its name to a shade of green?
47. What English town is the Cranford of Mrs Gaskell's novel?
48. With what town in Iraq was Sir Charles Townshend particularly associated during the First World War?
49. From what city did Rudyard Kipling's Kim set forth on his adventures?
50. What was the Biblical city after which one who is 'lukewarm' in politics or religion is named?

* * *

51. In what country did Gulliver meet a man who had been working 'eight years upon a project for extracting sunbeams out of cucumbers which were to be put into vials hermetically sealed, and let out to warm the air in raw, inclement summers'?
52. What English city has a Parliamentary division called 'Scotland'?
53. What is the City of Our Lady, Queen of the Angels?
54. What French city is celebrated for its bouillabaisse soup?
55. Where is or was Tara through whose halls the harp once 'the soul of music shed'?
56. What city, after Tokyo, London, New York, Shanghai and Moscow, has the largest population?
57. Which of the United States of America is known as 'the Treasure State'?
58. Off what island was the brig 'Covenant', with David Balfour and Alan Breck aboard, wrecked?
59. Near where did Shelley write –

    'The sun is warm, the sky is clear,
    The waves are dancing fast and bright,
    Blue isles and snowy mountains wear
    The purple noon's transparent might . . .?
60. In which English county is the market town of Haltwhistle?

* * *

61. Where is the Maddermarket Theatre?
62. What ancient entrenchment extended from the mouth of the Dee to the Wye, separating England from Wales?
63. In what Buckinghamshire town did the poet Cowper live from 1767 to 1786?
64. Where had Masefield's 'quinquireme of Nineveh . . . sailing home to haven in sunny Palestine' come from?
65. To what group of British islands does Pomona belong?
66. Of what country was Francisco Solano Lopez dictator?
67. What is the port of Athens?
68. What is the 'Iron City' of America?
69. What London borough contains the Isle of Dogs?
70. What is the largest province in area of Canada?

* * *

71. What imaginary Cornish village is part of the setting of Gilbert and Sullivan's *Ruddigore*?
72. In which French town did the Germans surrender unconditionally to the Allies on May 7th, 1945?
73. Of what Commonwealth country is Sir Roy Welensky Prime Minister?
74. Where does a warm dry wind called the the chinook blow?
75. Where are the 1960 Olympic Games to be held?
76. What is the highest mountain in England?
77. What is the longest river in the United Kingdom?
78. What is the island of origin of the sweet pea?
79. What is the airport of Liverpool?
80. On what Scottish island is Fingal's Cave?

* * *

81. What is the county town of Somerset?
82. What mountain pass was the scene of an epic battle between the armies of Leonidas, King of Sparta and Xerxes, King of Persia?
83. With what Spanish city was the painter El Greco especially associated?
84. Where is McGill University?
85. By what lake did Hannibal meet and defeat the Roman army in 217 B.C.?
86. What country uses the title, equivalent to 'esquire', of 'effendi'?
87. To what country is Sir Harold Caccia British Ambassador?
88. What planet has for satellites Ariel, Umbriel, Titania and Oberon?
89. Of what country is Caracas the capital city?
90. What city was the principal setting for Shakespeare's *Romeo and Juliet*?

* * *

91. What is the town terminus of the Central London bus route No. 38 from Chingford?
92. What city was the scene of the film *The Third Man*?
93. Of what university is H.R.H. the Duke of Edinburgh Chancellor?
94. What is the official residence of the Lord Warden of the Cinque Ports?

95. What city gave its name to the German Republic created after the First World War?
96. What English cathedral contains the tomb of King John?
97. In what English city is there a medieval butchers' street called The Shambles?
98. Of what country are Bosnia and Herzegovina provinces?
99. Where, according to Edward Lear, did the oblong oysters grow?
100. On what battleground was Sir Philip Sidney slain?

Weekly Notes

Integration

ON November 2nd, 1957, when the schemes for integrating The Society of Incorporated Accountants with the three Chartered Institutes came into effect, there were 11,549 members of the Society, of whom 669 were already members of one of the three Institutes. By December 3rd, 1958, the very great majority of the remainder had been admitted into one of the three Institutes, as follows:

Joined the Institute of Chartered Accountants in England and Wales	10,036
Joined the Institute of Chartered Accountants of Scotland	128
Joined the Institute of Chartered Accountants in Ireland	370

The Board of Trade has acceded to an application by the joint liquidators of the Society that under the provisions of Section 289 of the Companies Act, 1948, the Board should extend to October 31st, 1959, the time limit within which a general meeting of the Society of Incorporated Accountants (in voluntary liquidation) shall be held. The members of the Society are asked to note that this extension of time has been allowed.

Prospect for Steel

THERE is every likelihood that the steel industry will finish the year with a rate of output lower than was forecast at the beginning of the year. Indeed, capacity is increasing while output falls. The capacity of the industry is getting close to twenty-four million tons a year, and the current rate of output is no more than eighteen million tons. Probably about two million tons of output has been lost by the reduction in stocks held by the engineering industry. The engineering industry has also been reducing its purchases of components, which exercises a further, if indirect, effect on the demand for steel. It seems probable, however, that this de-stocking process will have come to an end by the early spring of 1959. So far as exports are concerned, Britain is in a strong competitive position, notably in sheet and tin plate, which are the types of steel enjoying a long-term expansion. On these two accounts, therefore, the steel industry should be due for a recovery in turnover in about three months' time.

A more serious factor is that the level of home consumption has begun to run below the long-term trend calculated in 1954 or thereabouts. A number of factors are at work in this decline. Exports to primary producing countries have been adversely affected and may take some time to recover. Certain heavy engineering industries, notably shipbuilding, are faced with a possible cyclical decline in activity, to judge from the level of new orders, and this is leading to a cautious purchase policy for steel. There are also technical changes which tend to make steel go further owing to the use of thinner plate and sheet. In spite of these factors, the steel industry continues to base its development programme on the long-term demand for steel continuing upward. It assumes, and it would be difficult to dispute the assumption, that steel consumption per head of population in this country and in key markets abroad is going to increase as the standard of living rises.

C.I.C. and the Midland Bank

AMONG the Big Five, the Midland Bank has always enjoyed its reputation of being something of a lone wolf. Over the last year it has certainly lived up to its reputation. It was the first bank in England to offer a scheme for personal loans without security and the first with the personal cheque account plan.

In an announcement last week it had clearly intended being the first of the big banks to raise new money by a rights issue to shareholders, a step which no large bank has taken for many years. In the event, it turned out to be the first to have its application turned down by the Capital Issues Committee. The bank had proposed issuing a one-for-three scrip issue, but the C.I.C. refused to allow an application combining the scrip issue with a 'rights' issue to shareholders. The reason for raising additional capital was the bank's wish to strengthen the ratio of its funds (defined in this context as paid-up capital and reserves) to deposits. Before the war this ratio was between 5 and 6 per cent for most banks. Since the war the large increase in deposits has reduced its ratio to between 2 and 3 per cent, and the Midland has been nearer two than three.

Restoring the pre-war ratio at a substantial premium would have helped to strengthen the bank's reserves, but the C.I.C., possibly acting on the

instructions of a higher authority, has seen in such a step not so much a strengthening of the bank's present position as a means of further expanding bank activities. This might have been a signal for the other large banks to carry out a similar operation.

The authorities may not like to see this device employed as a means of broadening the base of the banks' lending facilities, nor may they consider that this is the right time to broaden that base by these means or any other.

Residual Rights of Ordinary Shares are not 'Special'

THE Court of Appeal has dismissed the appeal of a shareholder against the decision of Mr Justice Danckwerts that the residual rights of ordinary shareholders to take the surplus profits and surplus assets, after the preference shareholders have been satisfied, are not 'special rights' (*Hodge v. James Howell & Co Ltd* (*The Times*, December 14th)). The company's capital was £500,000 divided into 200,000 cumulative 8 per cent preference shares of £1 each and 300,000 ordinary shares of £1 each. The company proposed to create and issue two million new preference shares ranking after the existing ones but conferring certain preferences, as against the ordinary shares, in relation to dividends and winding-up. Mr Hodge, an ordinary shareholder, asked for an injunction restraining the company from issuing the shares, on the grounds that the special rights of the ordinary shares were being prejudiced, contrary to clause 5 of the memorandum, and articles 116 and 137. As stated, the Court has held that no 'special rights' of the ordinary shares were affected. Leave to appeal to the House of Lords was refused.

Friendly Societies Report

PART 2 of the Report of the Chief Registrar of Friendly Societies for the year 1957[1], published last Monday, deals with friendly societies proper; the Registrar has of course other bodies under his wing, such as building societies and co-operative societies.

There is the usual mass of statistics which show the enormous funds controlled by friendly societies. During 1957 the membership was falling, except in the case of endowment societies which are becoming more popular. However, to the accountant the really interesting part of this report lies in the Registrar's comments about such matters as defalcations, the duty of auditors in relation to the accounts, and the duties of committeemen and officers in being vigilant in preventing and detecting irregularities. The review of defalcations makes melancholy reading. In one case the trustees of a club thought it right to sign blank cheques at the behest of the secretary, on the grounds that the cheques would be paid to certain breweries. The brewers' names were duly entered on the cheque counterfoils and in the books of the club but the amounts shown as paid were not in fact paid to them. The report contains a mild reprimand for an auditor who qualified his audit certificate by reference to a special report in which he stated that under instruction from the executive committee he had not performed a test examination of collectors' books originally authorized by a general meeting. In the Registrar's opinion it is not in compliance with the statute for an auditor merely to indicate in a special report to what extent he has not carried out a complete audit. A special report is intended for the information of the members and not to justify any limitation on the scope of the audit.

[1] H.M.S.O. 3s net.

Dividend Declared but Outstanding is not Income

THE excess profits levy made its debut in the Chancery Court this month. Bowater Sales Company appealed against an assessment made on it for the last period, ended December 31st, 1953. In that assessment there was included as income a dividend from one of its subsidiaries which was declared on December 16th, 1953, but was not paid until January 28th, 1954, by which time excess profits levy was no more. The Special Commissioners rejected the company's appeal but Mr Justice Harman, on December 12th, reversed this decision. He held that the dividend was not income of the period ended on December 31st, 1953.

What is a 'Majority'

WHEN disputes arise in a company, the articles laying down the necessary majority for the passing of a resolution and the extent of individual voting rights become very important. Although litigation on such matters usually concerns the ordinary company, it can concern the articles or rules of other bodies, such as learned societies.

The purported alteration at a meeting last April of the bye-laws of the Zoological Society of London has been held to be invalid in that the resolution was not passed by a majority of the 7,000 Fellows of the Society. Only 3,000 voted in person or by proxy (*Knowles v. Zoological Society of London* (*The Times*, December 6th)).

Section 3 of Chapter 13 of the then existing bye-laws, adopted in 1948, provided as follows:

> 'A proposal for the making of new bye-laws or for the alteration or repeal of any bye-law shall be either confirmed or rejected, and the president or other fellow in the Chair shall refuse to accept any amendment to the proposal. Any such proposal shall be deemed to have been confirmed if the majority of the Fellows entitled to vote shall vote in its favour, and for this purpose voting may be in person or by proxy.'

Mr Justice Vaisey held that the majority required was the majority of all the Fellows entitled to vote, whether they voted or not.

Cost Accounting under Conditions of Automation

by A. KENYON, B.Com., F.C.W.A., A.A.C.C.A., A.C.I.S., A.M.B.I.M.

THE systematic study of cost accounting as we know it today is a product of the twentieth century. However far back the remotest origins of costing may be found, it is a fact that the Industrial Revolution was well over a hundred years along its course before there came any general recognition of the need for the development and application of costing principles. Cost accounting has thus been growing up in an age of mechanization.

Mr A. Kenyon

Scope of the Paper

This paper, dealing as it does with costing under conditions of automation, must therefore attempt some differentiation between mechanization and automation. Should this difference appear to be significant, it will be important to consider whether established costing procedures are adequate for the new conditions, and if not, what changes will be required. It will also be helpful to visualize how accounting figures will reflect the advantages and disadvantages of automation, and what will be the principal financial yardstick. Most important of all will be to foresee what will be the most useful service the cost accountant can provide for management in its task of choosing the most advantageous course of action.

Summary of Conclusions

The principal conclusions will be:

(*a*) Predetermination of operating conditions implicit in automation will result in fewer deviations, and therefore easier cost control.

(*b*) The investment of resources in a relatively inflexible set-up, and the preparatory work involved, will make the soundness of the initial decision supremely important. The cost accountant's greatest contribution will lie in the guidance that he can offer at this stage.

(*c*) The cost accountant must be prepared to subject the whole of his work to searching inquiry, if that contribution is to match the need.

MEANING OF AUTOMATION

Definitions

There have been many definitions of automation, but for an authoritative source there comes to mind the late Frank G. Woollard whose practical experience in automation extended at least over thirty years.

> '. . . automation is the system and method of making processes automatic by the employment of self-controlling, self-acting machines for performing the necessary operations.'[1]

Automation is regarded as a logical extension of flow production and is further described as:

> '. . . a marriage of mechanism and management in which management is the dominant partner. It is the bringing together by management of methods, mechanisms and self-acting controls which has made possible the conception of the automatic factory.'[2]

From these and other definitions, and from the mass of what has been written in the past few years, the non-technical mind may well settle for something like the following twofold conception of automation:

(*a*) *the physical*
that of integrated systems of machines, embodying automatic handling equipment, instruments, electronic devices, and self-regulating controls;

(*b*) *the organizational*
that of exploiting the physical means; and involving product design, marketing, material and production control, personnel and finance.

A paper presented at the thirteenth national conference of the British Institute of Management, at Brighton on November 27th, 1958.

[1] 'What automation means,' Frank G. Woollard, M.B.E., M.I.MECH.E., M.I.PROD.E., M.B.I.M., M.S.A.E. An address delivered to the London & District Society of Chartered Accountants. (*The Accountant*, May 5th, 1956, page 493.)

[2] 'Machines in the service of man', Frank G. Woollard. Conference of the Institution of Production Engineers, June 1955.

This viewpoint sees mechanization simply as one component of automation – in Woollard's metaphor – as the submissive partner.

Advantages of Automation

The advantages of automation may include:

(1) Obtaining a more sensitive and complete control of the product or process than could be attained by human operation, thus resulting in a better or more uniform quality of the product, e.g. chemical processes or precision engineering.

(2) Overcoming man-power shortage in industrialized nations.

(3) Cost reduction in various forms such as:

(*a*) *Output* – Automation often involves a greater output and thus some charges may be spread more thinly over each unit.

(*b*) *The Product* – Redesign coupled with simplification, standardization and specialization can result in all-round cost reductions.

(*c*) *Labour* (including associated charges such as national insurance and pensions). Reduced costs of:

(i) Operating and setting.
(ii) Inspection.
(iii) Packing.
(iv) Some service departments.
(v) Clerical functions.

(*d*) *Material*

(i) Reduction in scrap made.
(ii) Fewer losses and damages in handling.
(iii) Better buying and less obsolescence.

(*e*) *Facilities*

(i) Economy in electric, hydraulic and pneumatic power and gas.
(ii) Improvement in machine utilization.
(iii) Economy in floor space.

(*f*) *Working capital* – Better flow will probably allow smaller stocks of raw material to be carried and certainly less work in progress.

In order to obtain improvements such as these, there may have to be heavy investment in new plant machinery and instruments, and personnel changes may be far-reaching. Nevertheless the stimulus of competition will drive management to seek out these benefits.

Evolutionary Nature of Automation

The validity of the views advanced in this paper must depend on the extent to which the industrial process in question has been automated. Apart from quite isolated examples, it seems probable that for a long time to come, automation will represent movement towards an ideal rather than an ultimate state achieved. Nevertheless, progress in some industries is far enough advanced for trends to be discernible, and in any case the coming of automation will often merely accentuate tendencies which have been developing from the earliest beginnings of industry.

DOES COST ACCOUNTING REQUIRE A NEW LOOK?

The Questioning Approach

It is characteristic of achievement in the field of automation that entire processes and often the product itself have been placed underneath the spotlight of inquiry. The full advantages of automation have seldom been achieved by grafting new gadgets on to existing processes, but more often by a completely new approach to the problem. Thus the difficulties of automating assembly operations have sometimes been overcome by redesigning the product so that it requires no assembly work and yet remains functionally unchanged. Cost accountants might well copy this radical approach; there are many questions which come to mind.

Are We Costing the Right Things?

From early days in the engineering industry, the need to estimate costs of jobs, on which to base tenders to customers, allied to the understandable wish to know which jobs made a profit, have resulted in preoccupation with the task of compiling job costs. Automation by its very nature will draw attention to the process rather than the job, and it is to the process that costing effort must be directed.

Are the Costs of the Service Departments being given Sufficient Attention?

Traditional preoccupation with 'production' departments, and with old-fashioned concepts of 'direct' costs, has often resulted in the service departments receiving but scant attention. As automation progresses and all efforts are bent towards keeping the production line running, the importance of service departments, and in particular the maintenance departments, will be further enhanced. Planned preventive maintenance will oust the 'fire brigade' system and the third shift of a three-shift system may in some circumstances be devoted entirely to maintenance. Clearly, important departments such as these must be subjected to rigorous analysis.

Does an Unbalanced View Result from Keeping up Tired Conventions?

By still further reducing the 'direct' portion of total cost, automation will speed up a movement which was already well known under conditions of mechanization. The distinction between direct cost and indirect cost (or overheads) is a hallowed one which goes back to the earliest practice in costing. Originally, direct cost meant only that which 'went into the job'; the remainder – the overheads – was less respectable, a hotchpotch of expense to be shuffled around until finally deposited on to a job or product. The methods used in these manipulations have ranged from the ultra naïve to the pseudo scientific, but often with little thought as to how resulting figures could be used to help manage the business. More recently an attempt has been made to broaden

the definition of direct cost, but the hangover from earlier ideas is most persistent.

Why not quietly drop redundant jargon? – and with it perhaps such time-honoured practices as the calculation of the ratio of overheads to direct labour. Automation will gradually eliminate what is still generally regarded as direct labour, and the futility of trying inversely to balance the whole pyramid of overhead cost upon a disappearing apex must be-become apparent to all. Indeed, no good purpose is served by over-emphasizing any one particular type of expenditure, and thereby neglecting the rest. What is required is a balanced approach through which all items receive proper attention; and this will be all the more necessary if the coming of automation is likely to disturb the previous balance as between the various elements of cost. The aim, after all, must be to reduce the *total* cost per unit of saleable output.

What Approach will Help to Give the Right Perspective ?

The well-tried and logical approach of budgetary control and standard costs is applicable equally to automation as to less advanced methods of production. The main steps are as follows:

(*a*) Budget the objectives of the business in material terms of output and sales, and reach agreement with the various levels of management as to what expenditure of each type of resources will be necessary to reach those objectives. At the same time, specify how expenditure ought to increase or decrease as actual performance surpasses, or fails to attain the budget.

(*b*) Measure and analyse variations between budgeted and actual performance and cost, so that reports can be made to responsible officials showing the variations which fall within their control, with a view to action to eliminate adverse trends.

Budgetary control will be no less useful under conditions of automation, but as will be seen later, the importance of the budget will expand, as the scope for control contracts.

Do We Lean too Heavily upon Convenient Assumptions ?

A useful device for short period cost control where wide output fluctuations are not envisaged, has been the classification of expenses into the categories of 'variable', 'semi-variable' or 'fixed'. Under conditions of automation, however, it seems likely that apart from the materials forming part of the product, other expenses varying closely with output will form but an insignificant proportion of total cost. More attention must therefore be given to 'fixed' costs, to see how fixed they really are, and whether management has any scope for unfixing some of them.

The following analysis of 'fixed' costs may serve as a basis for a study of this problem.

(*a*) '*Sunk*' *expenditure*. This comprises mainly capital expenditure which for better or worse has been actually laid out, and cannot be controlled or changed except to the limited extent of the resale value. Although this expenditure may be amortized in the accounts over varying periods of years, these depreciation figures are simply a reflection of past expenditure.

(*b*) *Local taxation*. The liability to pay rates is outside the control of management.

(*c*) *Insurance*. The cost of insuring against certain risks is a policy matter within the control of top management.

(*d*) *Personnel*. The inertia of this expenditure is high in a country where geographical and occupational mobility is rather restricted. Nevertheless the employment of people does fall within the control of management even if policy is tending to lift the control to higher levels.

(*e*) *Outside services*. Each item in a wide range needs to be considered on its own merits.

In the evolution of industry as well as natural species, adaptability and flexibility in the face of changing circumstances may be the best guarantee of the maintenance of one's position, or even of survival. If as seems likely, automation results in a loss of flexibility, it is important to face this fact, and for the accountant to bring to management's attention its effect on the cost structure of the business.

AUTOMATION AND COST CONTROL

Automation Predetermines Operating Conditions

Having suggested some avenues of inquiry into costing procedures, it will now be necessary to consider what effect upon actual figures of cost may be produced by a conversion to conditions of automation, and whether the task of cost control will thereby change.

Certain new trends in recorded figures, which one may expect to find, will stem from the fact that automation involves the predetermination of operating conditions to quite a considerable extent.

> '. . . the new circumstances will necessitate a new appraisal of certain management functions in the automatic factory. It will, for instance, be absolutely essential that all preparatory work should be more thorough, and this will apply to every item, from market research to the testing of prototypes. Nothing can be left to chance or allowed to remain in abeyance when the whole factory is so closely integrated and keyed up to a higher tempo than ever before.'[1]

Variations Will be Reduced

The fact that so much will be predetermined in a highly automated set-up seems likely to cause a change in emphasis of a system like budgetary

[1] 'Machines in the service of man', Frank G. Woollard.

control, which concentrates on reporting variations or exceptions to management. Variations will tend to be smaller and exceptions fewer as human control is replaced by automation.

Features less likely to be subject to casual deviations will include:

Rates of output. These will be planned, balanced and rest entirely on machine performance, and should not vary, subject of course to machine breakdown or power failure.

Staffing at all levels. The operator will tend to exercise a more remote and general control, and inspection will become an automatic process. Personnel establishments will be fixed, jobs will be more closely defined and payment by results will largely disappear.

Material usage. Spoiled work will be cut down to a minimum with automatic processing. Automatic handling of materials and components will reduce losses and damage.

Running costs. The usage of electric, hydraulic and pneumatic power, gas and oils will vary closely with the running time of the line and therefore with output. Furthermore, preventive maintenance on a highly-organized basis will aim to eliminate all casual stops in the production process.

Non-controllable Factors

Those features which remain outside the control of management will be subject to deviation as before and fall mainly into two groups:

Level of output. The intensity of demand for the products of the automatic factory is likely to assume an overriding importance, and variations in demand causing the usage of factory capacity to fall below the planned level will have serious consequences. Stocking policy will of course take care of foreseeable seasonal fluctuations.

Price of all factors. The prices of all grades of labour, of materials and of outside services will be determined by supply and demand. No new problem arises here, as any adequate costing system should throw up the effects of significant variations as a matter of routine.

Cost Control will Become Easier

The need to measure deviations from standards will not diminish as automation progresses, but it appears that the number of significant deviations will be reduced. This suggests that cost control will become an easier task.

To the extent that cost figures are affected by the vagaries of the human factor, the problem should be narrowed as automation implies a reduction in the number of people present at the scene of operations. With 'direct' labour virtually disappearing, wage analysis may in large part be eventually predetermined.

Some of the prime data – and ultimately quite a large proportion – will be provided as a by-product of the automatic systems which will control production. The increased speed and accuracy will prove great advantages.

Even without considering the possibility of using electronic devices for book-keeping it would seem that the recording aspect is going to be simplified and made more automatic. This trend will be welcome, as it should release the cost accountant to devote more time to investigations, interpretation of results and forecasting.

CHOICE AS A MANAGEMENT PROBLEM

Progress by Substitution

Up to this point, cost accounting has been examined with reference to industrial conditions in which automation was already in operation. It has been seen that once the automatic production line has been set going, cost control will be relatively easy. But what of the sequence of events which leads to the adoption of automation?

Progress in industry is achieved through a continual change and rearrangement of factors of production and their method of employment. One type of labour is substituted for another or converted by retraining; machines replace labour; a new machine replaces a less suitable machine; a new arrangement of existing machines replaces a less effective set-up; or perhaps a combination of all these changes takes place, the aim of management being to deploy its resources to the greatest advantage.

Profound Changes

Where an extensive project of automation is under consideration the changes will be profound, reaching deep into the business and affecting for example product design, machines, methods and production control. In the ultimate case where a factory is made completely automatic, very little of the old may be preserved, and if fresh capital has to be raised to finance the operation, even the ownership may be modified.

Importance of the Initial Decision

There must always be at the back of our minds, however, the disturbing thought that if the initial decision to install a highly-automated plant was a bad one, then all the cost control in the world may not be able to redeem the situation after the expenditure on buildings, plant, machinery and equipment has been incurred. Once a project has been completed and set going, its momentum will be such that it will be difficult to stop without heavy loss and disruption. Because of the high initial expenditure before the commencement of production, management will be most reluctant to cut back on its budgeted output so long as marginal revenue is likely to cover marginal cost. The inescapable conclusion is that meticulous

planning, and careful assessment of the economics should be undertaken before a large automation project is approved.

Principal Financial Yardstick

Concentration upon detailed aspects of the comparative efficiency of industrial processes, such as speeds, number of employees, floor areas, scrap percentages, profit percentage to sales, and the like, should not obscure the fact that it is necessary to have some overall economic measure which will embrace all the above and many other factors, giving each its due weight. This principal yardstick is the return on capital employed.

Automation to be justified must not only pay, but pay better, than alternative methods, in terms of return on capital. The reason why the fully automatic factory is unlikely to be seen for a long time, is not so much on account of technical difficulties, but rather that beyond a certain point, additional increments of capital invested will not yield a satisfactory return.

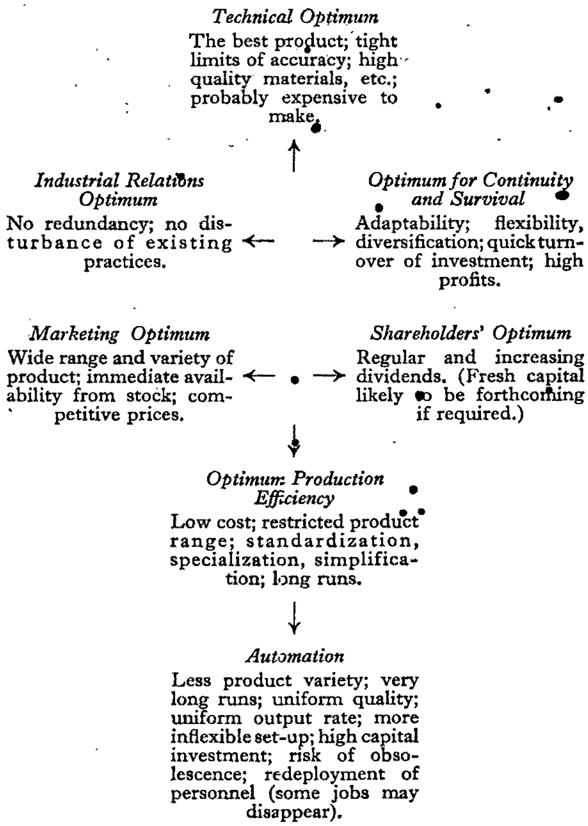
Importance of the Balance Sheet

The cost accountant must be prepared to look to the balance sheet, and to give to the study of capital employed the same concentrated attention which has too often been reserved for costs and profits. Where large automation projects are in view, further substantial investment of a long-term character may be involved. Also additional temporary finance may be required if finished stocks are intended to act as a buffer between a seasonal demand, and the uniform output rate of an automatic production line. Someone will have to calculate what cash will be needed, and also when it will be needed. It is then surely beyond doubt that there will be an absolute necessity to institute the systematic planning and control of all items in the balance sheet. No matter how capable the technical resources available, the most progressive company may be brought to its knees if it ignores the financial facts of life.

The Problem of Choice

The basic and continuing problem of management under all forms of production is how to make the best use of the resources under its control. In the attempt to choose the best of many alternatives which offer themselves day by day, management is continually making decisions, some of slight and some of material significance. Automation brings a change to the situation because its introduction will involve decisions which are more far-reaching and also more difficult to reverse.

If the potential value – and the limitations – of the cost accountant's contribution at the decision-making stage are to be appreciated, it will be necessary to consider some of the various criteria by which management arrives at its important decisions. The ever present difficulty is that different courses of action may be attractive from certain points of view but not from others. Thus for example a wide range of colour and finish of a product may be the optimum from the point of view of selling, but a single colour and a single finish may be the production optimum. The following diagram illustrates the perpetual conflict, but is not in any way comprehensive.



Finance Not the Sole Consideration

One factor of great importance which cannot be shown satisfactorily on the diagram is the time dimension. What may seem attractive in the short run may make but a poor showing in the long period. Yet it is long-term profitability that is vital, and one of the major difficulties of top management is trying to visualize probable major conditions say five to ten years ahead. But if long-term prospects are the most important, so are they the most difficult to express in financial terms, at least within workable tolerances. Major decisions may therefore have to be taken in a no-man's-land outside the range of normal financial calculations. Quite apart from the question of the time dimension, there are many other factors – industrial relations, for instance – which cannot be evaluated in precise financial terms. It is then true to say that in proceeding to the conclusion of every business decision, there is a point beyond which figuring cannot go, and that there is left a gap which can be spanned only by judgment.

The Cost Accountant's Task

While acknowledging the limitations of financial appraisal of business situations, it is surely the job of the cost accountant to reduce, so far as possible, the area of uncertainty. Hunch or intuition is no substitute for facts where these are ascertainable, or can be estimated within reasonable tolerances. Although one should avoid over-emphasizing the importance of factors which are conveniently susceptible to financial assessment, it is clear that a very important task lies in setting out the financial implications of the various proposed courses of action. Perhaps one might then pose a final question – this time to management.

Does Management Consult the Cost Accountant at a Sufficiently Early Stage ?

In some cases the cost accountant is consulted at so late a stage that he has little alternative but to believe that management is hoping to be handed figures in support of a case that has actually been decided. Where large automation schemes are being considered, failure to obtain an objective assessment of the financial implications could indeed be disastrous. The value of any help that the cost accountant can give at the decision-making stage must surely outweigh the usefulness of any melancholy commentary which he may be able to provide once an ill-considered decision has been implemented.

Conclusions

The salient points may be summarized as follows:

(*a*) Conditions of automation will place additional strain on the plausibility of certain conventions and of time-honoured costing procedures. Established practices will have to be subjected to searching inquiry.

(*b*) Predetermination of operating conditions, so characteristic of automation, will result in easier cost control, thus allowing the cost accountant to concentrate more on investigations.

(*c*) In highly-automated factories, gaps in the flow of production will be costly. The soundness of the initial decision will be supremely important.

(*d*) The cost accountant's greatest contribution will lie in helping management choose the most advantageous course of action.

(*e*) Automation will often involve large schemes of investment, and this will direct attention to the balance sheet and to the need for careful financial planning.

It is important to the entire community that automation should be introduced into British industry with foreknowledge and understanding. In assisting management to judge the timing and the extent of its application, the cost accountant will find a satisfying task.

Reviews

The City's Invisible Earnings

by WILLIAM M. CLARKE. (The Institute of Economic Affairs, 24 Austin Friars, London, EC2. Library edition 7*s* 6*d* net; paper bound 5*s* net.)

The services which the City of London renders to the financial and commercial world at large make this country richer by, it is estimated, about £150 million a year. How insurance companies, merchants, bankers and brokers contribute to these invaluable invisible earnings is told in straightforward factual fashion by Mr Clarke. He also sums up in a final chapter the fairly reassuring prospects of the City continuing to be, despite all the restrictions it has had to overcome in the last decade or so, the acknowledged centre of international finance. The turn of forthcoming events in Europe may be decisive but if the past and present tradition of enterprise and experience is maintained then London's unique position is unlikely to be seriously threatened.

Money at Work

Edited by MILTON GRUNDY, M.A. (Sweet & Maxwell Ltd, London. 17*s* 6*d* net.)

Most accountants should already be familiar with the contents of the first part of this survey which covers all the orthodox ways of investing money – in public and private companies, in property, in life assurance and pension schemes, in mortgages and by deposits with finance houses, hire-purchase concerns and building societies. What will almost certainly be new to many is the information contained in the contributions making up the second part on how to buy, for future profit, pictures, furniture, silver, jewellery, glass, Chinese works of art, coins, wines, books and manuscripts and, lastly, stamps.

Although the individual chapters are too short to give more than a glimpse of the possibilities, that which is revealed by the experts is intriguing. To obtain aesthetic as well as capital appreciation from one's well-chosen investments must be one of the most satisfactory of all forms of business endeavour. The exercise, however, is much more difficult than it would seem to be. Fashion, as well as innate taste, determines prices and the valuable of today, tomorrow may be junk. Mr Evelyn Joll, in his chapter on pictures, instances the case of a first state of the mezzotint of the Countess of Harrington engraved

by Valentine Green from the original Reynold's portrait. In 1924, it fetched £800 but in 1956 changed hands for only £38. This is but one of the examples quoted and in assembling a collection of any kind, careful attention must be paid to the fickleness of current popularity and its affect on prices.

The editor prefaces the survey with a matter of fact chapter on the tax factor and the appendix includes symbolic tables of tax and death duty rates.

Puzzle-Math

By GEORGE GAMOW and MARVIN STERN. (Macmillan & Co Ltd, London. 8*s* 6*d* net.)

For those who like mathematical puzzles to be presented as human situations and not as examination questions, this is the book. Its two authors – scientists working on different floors of the same building – both noticed that when the one wanted to visit the other, the elevator usually seemed to be going in the wrong direction. This common discovery, which they eventually worked out as an illustration of the difference between frequency and phase, led them to the further discovery that both were interested in brain-teasers. Together, they made this collection which, if it contains some familiar problems like that of the bee flying backwards and forwards between two approaching trains, also enshrines some (to the reviewer) delightful new ones such as that of the Sultan who wished to control the ratio of men to women in his country's future population.

Industrial Law

Fifth Edition by H. SAMUELS, M.A., Barrister-at-Law. (Sir Isaac Pitman & Sons Ltd, London. 21*s*.)

So heavy is the legal burden which rests on the employer of labour today that it is virtually a necessity, and certainly very desirable, for anyone holding a responsible position in industry to have a sound working knowledge of the basic principles of that somewhat amorphous body of legal rules grouped together under the heading of industrial law. He probably could not do better than to study Mr Samuels' book, which, intended as it is for the layman rather than the expert, deals with the subject in a simple and straightforward manner.

Naturally, it is not possible, in so small a compass, to deal with every aspect of the law with which a person engaged in industry is likely to come into contact, but the author deals at some length with the contract of employment, statute law concerning conditions of work in factories, and injuries at work. Other important subjects, such as trade unions and trade associations and conciliation and the settlement of disputes, are dealt with more briefly. Propositions of law are well supported by reference to cases, which enable the student who wishes to pursue the subject more deeply to do so conveniently.

SHORTER NOTICES

THIRD CUMULATIVE SUPPLEMENT TO DYMOND'S DEATH DUTIES 12th edition by Robert Dymond and Reginald K. Johns, LL.B. (The Solicitors' Law Stationery Society Ltd, London 21*s* net.) The new supplement is 182 pages long as against the 122 pages of its immediate predecessor, which shows what a lot happened in estate duty in the twelve months ended October 1958. One matter for particular note is the full treatment which the authors give of the decision in *Midland Bank Executor and Trustee Co Ltd v. Commissioners of Inland Revenue* (1958) T.R. 79.

DIARY FOR LAWYERS 1959. 67th edition by W. H. Redman, (Sweet & Maxwell Ltd, London. 22*s* 8*d* net.) This desk diary can be thoroughly recommended. The printing, binding and layout are exemplary both in appearance and utility. There is a mass of information most of which is just as interesting to the accountant as to the lawyer. A full page is given for every day except Sunday and there is a useful thumb index.

RECENT PUBLICATIONS

NATIONALIZATION IN BRITAIN: The End of a Dogma, by R. Kelf-Cohen, C.B., M.A., B.SC.(ECON.). x+310 pp. 9×6. 25*s* net. Macmillan & Co Ltd, London.

PRICE THEORY, by W. J. L. Ryan. ix+396 pp. 9×6. 31*s* 6*d* net. Macmillan & Co. Ltd, London.

THE LEGAL ASPECTS OF INDUSTRY AND COMMERCE, by W. F. Frank, LL.B., B.COM., M.SC.(ECON.), DR.JUR. 256 pp. 9×6. 12*s* 6*d* net (England). George G. Harrap & Co Ltd, London.

PURCHASE TAX, by A. T. Grieve, M.A., LL.B.(CANTAB). x+208 pp. 8½×5. 25*s* net. Sweet & Maxwell Ltd, London.

AUTOMATION AND COMPUTING, by Andrew D. Booth, D.SC., PH.D. 158 pp. 9×6. 25*s* net. Staples Press Ltd, London.

THE CHANGING PATTERN OF DISTRIBUTION, by Nicholas A. H. Stacey and Aubrey Wilson. x+380 pp. 9×6. 45*s* net. Business Publications Ltd, London.

FINANCIAL PROBLEMS OF THE FAMILY COMPANY, by A. R. English, A.C.A. x+164 pp. 8×5. 21*s* net. Sweet & Maxwell Ltd, London.

TAX PROBLEMS OF THE FAMILY COMPANY, second edition, by Milton Grundy, M.A., Barrister-at-Law. viii+157 pp. 8½×5. 17*s* 6*d* net. (U.K. only.) Sweet & Maxwell Ltd, London.

INCOME TAX, LAW AND PRACTICE, twenty-eighth edition, by Cecil A. Newport, F.A.C.C.A., and H. G. S. Plunkett, Barrister-at-Law. xli+464 pp. 9×6. 30*s* net (U.K. only). Sweet & Maxwell Ltd, London.

A SIMPLE GUIDE TO NEGOTIABLE INSTRUMENTS AND THE BILLS OF EXCHANGE ACTS, second edition (including the Cheques Act, 1957), by Dudley Richardson. ix+184 pp. 7½×5. 17*s* 6*d* net (postage 1*s* extra). Butterworth & Co (Publishers) Ltd, London.

BUILDING CONTRACTS OF LOCAL AUTHORITIES, prepared for R.I.P.A. Corporate Members. Studies of Administrative Methods, Number Seven. 30 pp. 8½×5½. Card covers. 5*s* net. Royal Institute of Public Administration, Haldane House, 76A New Cavendish Street, London, W1.

BUDGETARY CONTROL AND STANDARD COSTS, The Practice of Accountancy as an Aid to Management, fourth edition, by J. A. Scott, C.A., F.C.W.A., A.M.B.I.M. x+213 pp. 9×6. 21*s* net. Sir Isaac Pitman & Sons Ltd, London.

THE BOSS, The Life and Times of the British Business Man, by Roy Lewis and Rosemary Stewart. 255 pp. 9×6. 21*s* net. Phoenix House Ltd, London.

Finance and Commerce

Dennis Brothers

THIS week's reprint gives the accounts to September 30th, 1958, of Dennis Brothers Ltd, the commercial vehicle builders whose name is associated with fire engines and fire-fighting equipment.

With these accounts, a new form has been adopted in which one of the points is the departure from the description 'reserves' to something which describes how the figures brought into the context of capital have arisen. The description used is 'earnings retained in the business' which is brief and to the point. Another item which turns accounting terminology into normal language is 'earnings retained for taxation in temporary use'. The treatment of dividends under 'use of earnings' is also interesting.

Mr David J. Grimes, the chairman, points out that the cash resources shown in the accounts will be needed in the near future to finance new developments in all sections of the business, requiring tools, equipment and substantial stocks.

Rover's Stocks

A CHANGE has been made this year by the Rover Co Ltd in the basis of stock valuation. The board consider the time has come for the valuation to be brought on to a basis similar to that accepted for taxation purposes.

Mr Spencer B. Wilks, the chairman, explains that work in progress and stocks of finished parts and vehicles have hitherto been valued on a basis first adopted some twenty-five years ago and consistently followed since, except during the war years when there was no vehicle production. But as this basis of valuation varies appreciably from that accepted by the Inland Revenue in the computation of the company's taxation liabilities, the financial results are liable to be distorted in years in which there is an appreciable difference between the opening and closing stocks.

The change has been made from August 3rd, 1957, the opening of the year of the accounts, and the increase in the valuation of stocks at that date amounting to £461,481 has been added to general reserve. Comparative figures in the accounts have not been adjusted to the new basis and stand as published last year so that the item reads: £7,035,176 – 1958; £4,029,466 – 1957. If the new basis had been used for the year to August 1957, the consolidated net profit after taxation would have been £726,235 instead of £807,833.

Asset Values

AN indication of present asset worth is given by Sir Leonard Lord, chairman of the British Motor Corporation Ltd, in his statement with the accounts to July 31st, 1958.

The consolidated balance sheet shows freehold and leasehold land and buildings at valuation or cost of £15,830,650 less £3,412,696, or £12,417,954 net. Plant and equipment at valuation or cost amount to £53,497,483 less £29,588,090 for depreciation, or £23,909,393 net. The carried out total for the fixed assets is therefore £36,327,347.

Sir Leonard says that the accounts show the value of the corporation's fixed assets based on their original purchase price. Present worth, he points out, is considerably higher than when they were purchased.

To convey to shareholders some idea of the present-day values of these assets, estimates have been prepared, based on their depreciated fire insurance values and up-to-date land values. 'The result,' says Sir Leonard, 'is that if land, buildings, plant and equipment appeared in the balance sheet at this estimated worth, a surplus would arise of approximately £24 million, thus bringing this item to over £60 million.'

'For the present,' he adds, 'it is not proposed to make any adjustment to the accounts in respect of this surplus but the matter will be kept under consideration.'

Eleven Months' Delay

PUBLICATION of the accounts of Lewis & Peat Ltd, produce brokers etc., for the year to December 31st, 1957, has been delayed for nearly eleven months after accounting date. Politics in the Far East have reduced prospects in that area. Efforts are being made to diversify the business as a whole and it was in the hope that the board would have something definite to report that the accounts were held up. Unfortunately, that point has not yet been reached.

Meantime, resources have been mobilized to offset the £44,015 loss after taxation (against £39,118 profit). Mr H. Boyden, the chairman, draws attention to the fact that although total losses incurred, including items relating to prior years, amounted to £62,106, total shareholders' funds have been reduced by only £29,995 to £589,783 after providing £10,350 for preference dividends.

The reason for the comparatively small reduction in shareholders' funds, he says, is the crediting to capital reserve of amounts totalling £36,843 including a surplus arising on a revaluation of certain shareholdings subsequently disposed of. The sale took place in the early part of 1958 and the holdings were valued in the end-1957 accounts at the price realized.

Next Week's Reprint

The accounts of Toledo Woodhead Springs Ltd will provide the subject of next week's reprint.

DENNIS BROTHERS LIMITED

PROFIT AND LOSS ACCOUNT

Statement of Earnings and their Use for year ended 30th September 1958

EARNINGS			1958 £	1957 £
Profit of the Company from Manufacturing and trading activities after charging all expenses other than the undermentioned			185,382	184,684
From which must be deducted:				
Depreciation		38,689		37,789
Audit fee and expenses		700		700
Directors' Emoluments: Fees		3,618		3,600
Remuneration as Managers		10,316		11,783
Pension to Retired Executive Director		800		800
			54,123	54,672
			131,259	130,012
Transfer Fees			122	120
Interest and Rents Receivable			20,715	11,572
Earnings for the year			£152,096	£141,704

USE OF EARNINGS			1958 £	1957 £
Taxation on Earnings for the Year:				
Profits Tax		20,500		25,000
Income Tax at 8s. 6d. on all earnings		66,000		63,500
Taxation for the year		86,500		88,500
Less: Income Tax Adjustments:				
Equalisation of Initial Allowances	600			1,200
Over-provision for tax in previous years	540			11,150
		1,140		12,350
			85,360	76,150
Dividends before deduction of Tax:				
Interim Dividend of 5% of par value (1957—5%) Paid 10th May 1958	37,562			37,562
Proposed Final Dividend of 5% of par value (1957—5%) payable 19th December 1958	37,562			37,562
	75,124			75,124
Less: Income Tax at 8s. 6d.	31,928			31,928
		43,196		43,196
Retained in Business		23,540		22,358
Earnings for the year after taxation			66,736	65,554
			£152,096	£141,704

BALANCE SHEET

Statement of Capital and its Use at 30th September 1958

SHAREHOLDERS CAPITAL			1958 £	1957 £
Authorised 2,000,000 Shares of 10/- each		£1,000,000		1,000,000
Issued and Fully paid up Share Capital 1,502,475 Shares of 10/- each			751,237	751,237
Earnings retained in Business:				
On General Account		500,000		500,000
On Stock Account		100,000		100,000
Carry Forward		410,956	1,010,956	387,416
			1,762,193	1,738,653
Earnings retained for Taxation in temporary use:				
Income Tax due 1st January, 1959		63,500		63,500
Equalisation of Initial Allowances		21,600		22,200
			85,100	85,700
			£1,847,293	£1,824,353

USE OF CAPITAL			1958 £	1957 £
Fixed Assets				
Freehold Land and Buildings, Plant and Equipment			188,308	205,546
Freehold Land and Houses for employees			23,938	23,873
Total Fixed Assets (see below)			212,246	229,419
Current Assets				
Stock in hand and work in progress, at cost, or under as valued by officials of the Company		1,016,872		1,334,397
Amounts receivable (*less* provisions)		541,014		376,446
Tax Reserve Certificates		150,000		143,375
Deposits with Municipalities at short call		150,000		—
Cash at Bank and in Hand		71,974		135,886
		1,929,860		1,990,104
Less: Current Liabilities				
Amounts payable to Suppliers and others, including accrued charges	189,137			213,013
Current Taxation payable	83,709			160,106
Unclaimed Dividends	369			453
Proposed Final Dividend	21,598			21,598
Total Current Liabilities		294,813		395,170
Net Current Assets			1,635,047	1,594,934
			£1,847,293	£1,824,353

NOTE. Commitments for Plants and Machinery at 30th September 1958, £8,443

Statement of Fixed Assets

	Cost	*Previously written off*	*Depreciation this year*	1958 Nett Value	1957 Nett Value
Goodwill and purchase of business in 1913	102,597	102,597	—	—	—
Freehold Land and Factory (*less* Sales)	299,128	209,564	5,585	83,979	89,564
Plant, Machinery and Equipment	838,601	722,619	31,494	104,329	115,982
Additions (*less* Sales)	19,841				
Freehold Land and Houses (*less* Sales)	66,484	42,611	1,610	23,938	23,873
Additions	1,675				
	£1,328,326	£1,077,391	£38,689	£212,246	£229,419

Signed on Behalf of The Board.—DAVID J. GRIMES, R. E. DENNIS } *Directors.*

CITY NOTES

THE approaching Christmas holiday has had its inevitable effect on the volume of stock-market business but the continued firmness of industrial equities remains evident. Investment of unit trust money is a decided influence.

Equity demand has become particularly selective with a more marked tendency for money to be placed into the shares of heavy industry companies in the belief that the New Year may see the delayed result of recently taken credit moves.

The British Aluminium-Tube Investments tussle still attracts considerable attention with the City growing more confident that Tube Investments will attract support for its direct take-over bid. The main factor in the British Aluminium affair is the question of future control. Under British Aluminium's deal with the Aluminium Company of America the possibility of future American control of the company cannot be ruled out of the reckoning.

Another subject for considerable City discussion has been the failure of the Midland Bank to secure Capital Issues Committee consent to a rights issue. The C.I.C.'s attitude seems at variance with that of the Treasury which has given the banks freedom to lend. That freedom apparently stops short at raising new money.

While the industrial equity market remains firm the gilt-edged section still finds it difficult to make any worth-while headway.

Institutional support for the funds is still lacking and the banks and insurance companies still appear, on balance, to be sellers. The lower level of prices is, however, bringing in some Trustee money on a redemption yield basis.

RATES AND PRICES

Closing prices, Tuesday, December 16th, 1958

Bank Rate

Feb. 16, 1956	5½%	May 22, 1958	5½%
Feb. 7, 1957	5%	June 19, 1958	5%
Sept. 19, 1957	7%	Aug. 14, 1958	4½%
Mar. 20, 1958	6%	Nov. 20, 1958	4%

Treasury Bills

Oct. 10	£3 13*s* 0·72*d*%	Nov. 14	£3 11*s* 0·97*d*%
Oct. 17	£3 12*s* 3·08*d*%	Nov. 21	£3 8*s* 4·68*d*%
Oct. 24	£3 13*s* 7·94*d*%	Nov. 28	£3 6*s* 1·20*d*%
Oct. 31	£3 11*s* 8·23*d*%	Dec. 5	£3 4*s* 5·75*d*%
Nov. 7	£3 11*s* 7·04*d*%	Dec. 12	£3 2*s* 4·92*d*%

Money Rates

Day to day	2½–3⅛%	*Bank Bills*	
7 days	3–3⅛%	2 months	3¼–3$\frac{5}{16}$%
Fine Trade Bills		3 months	3¼–3$\frac{5}{16}$%
3 months	4¼–5%	4 months	3¼–3$\frac{5}{16}$%
4 months	4¼–5%	6 months	3¼–3⅜%
6 months	4½–5¼%		

Foreign Exchanges

New York	2·80½–$\frac{9}{16}$	Frankfurt	11·68¾–⅞
Montreal	2·70$\frac{3}{16}$–¼	Milan	1745⅞–6⅛
Amsterdam	10·56¾–·57	Oslo	20·00½–¾
Brussels	139·27½–·30	Paris	1176⅝–⅞
Copenhagen	19·32¾–·33	Zurich	12·19¼–½

Gilt-edged

Consols 2½%	50⅞xd	Funding 4% 60–90	89¾
Consols 4%	74⅜	Savings 2½% 64–67	83$\frac{3}{16}$
War Loan 3½%	65$\frac{11}{16}$	Savings 3% 55–65	90⅝
Conversion 3½%	65⅞	Savings 3% 60–70	79$\frac{13}{16}$
Conversion 3½% 1969	87⅛	Savings 3% 65–75	74⅛
Exchequer 5½% 1966	103$\frac{9}{16}$	Treasury 2½%	48¾
Funding 3% 66–68	84	Treasury 3½% 77–80	76
Funding 3% 59–69	82⅝	Treasury 3½% 79–81	76½
Funding 3½% 99–04	70⅝xd	Victory 4%	95⅞

Current Law

Indemnity of Trustees

IN *Re Grimthorpe's Will Trusts* ([1958] 1 All E.R. 765), the trustees of the will sought and obtained from Danckwerts, J., an order that objections made by them to the taxation of costs under an order made in proceedings in which they sought directions as to the investment of the trust moneys be allowed and referred back to the taxing master to vary his certificate accordingly.

The taxing master had taxed down four items in the bill of costs relating to counsel's fees. Holding that these items which had been actually paid by the trustees in good faith should be allowed in full, his lordship pointed out that the general rule as to costs incurred by trustees was quite plain: they were entitled to be paid back all that they had had to pay out.

Retrospective Foreign Law

IN *National Bank of Greece and Athens, S.A., v. Metliss* ([1957] 3 All E.R. 608), the House of Lords held that a Greek law whereby the appellant company was constituted the universal successor on the amalgamation of two other companies had the effect of transferring to the successor liability under a contract, the proper law of which was English, whereby one of the amalgamated companies had assumed liability as a guarantor.

In further actions arising out of the same guarantee, Diplock, J., in *Adams and Others v. National Bank of Greece and Athens, S.A.: Prudential Assurance Company Limited and Others v. Same* ([1958] 2 All E.R. 3) considered the effect of a decree of the Greek Government amending the earlier law with a view to absolving the successor company from any liability on the guarantee. The plaintiffs argued that, since prior to the making of the amending decree, the defendant was liable in English law, as the House of Lords had decided, if it had subsequently ceased to be liable, but had nevertheless continued to exist as a juristic person, it must be by virtue of a discharge of

its contractual liability that was valid in English law, which was the proper law.

Diplock, J., accepted this argument and held that it was beyond question that an English Court would not treat the amending decree as effective to discharge the defendant so far as concerned liabilities under a contract of which the proper law was English. His lordship rejected the view that the decree was not in substance a law discharging contractual liabilities, but one within the category of a law of succession, because it purported to achieve its object by amending a pre-existing law of succession: a law which altered the rights and liabilities of persons who were already successors, though it might be a law relating to 'successors', was not a law of succession at all. Nor did it make any difference that the decree, by its restrospective nature, sought to say that the defendant, which had previously been constituted a successor, had never been a successor at all so far as liability on the guarantee was concerned.

Restraint of Trade

THE Court of Appeal in *Kores Manufacturing Company Limited v. Kolok Manufacturing Company Limited* ([1958] 2 All E.R. 65) has affirmed the decision of Lloyd-Jacobs, J. ([1957] 3 All E.R. 158), that a reciprocal agreement between two companies restraining the employment of each other's former employees within a period of five years was void and unenforceable. In so holding their lordships had regard particularly to the fact that the agreement imposed the restraint in respect of all employees without distinction between those who were possessed with trade secrets or confidential information and others who were not so possessed, and the fact that although, on the evidence, the real reason for the agreement was the proximity of the two companies' factories, there was no provision in it limiting its duration to the period while that proximity lasted. Even on the assumption that the agreement was impliedly terminable by six months' notice on either side (a question which their lordships did not in fact decide), the agreement was still void.

In the words of Jenkins, L.J., who delivered the judgment of the Court, '. . . the agreement . . . was grossly in excess of what was adequate to protect that for which the plaintiffs required protection from the dangers against which protection was required'. While it was true that the agreement was between two employers, and not between employer and employee, an employer had no legitimate interest in preventing an employee, after leaving his service, from entering the service of a competitor merely on the ground that the new employer was a competitor. It seemed to be open to question whether an agreement directed to preventing employees of the parties thereto from doing that which the employees could not by individual covenants with the respective employers validly bind themselves not to do should be accorded any greater validity than the individual covenants by the employees themselves would possess.

Their lordships left undecided the question which was raised whether an agreement between employers, if it were reasonable as between the parties to it, would be unenforceable, as being a restraint of trade contrary to the public interest, unless it created something in the nature of a monopoly of employment in a particular trade.

Innocent Misrepresentation on Sale of Reversion

THE defendant in *Brown v. Raphael* ([1958] 2 All E.R. 79) was a trustee in bankruptcy who offered for sale by auction the absolute reversion in a trust fund to which the bankrupt was entitled. The fund had been set aside to pay an annuity to an annuitant who was then 69 years old. The reversion was offered subject to all death duties which might become payable and the particulars of sale stated that estate duty would be payable on the death of the annuitant 'who is believed to have no aggregable estate'. The firm name of the vendor's solicitors appeared at the end of the conditions of sale. While these solicitors had in fact made inquiries concerning the annuitant's estate, no information justifying the belief that she had no aggregable estate had been forthcoming, so that the statement of belief was inserted in the particulars mistakenly (though, as the trial judge held, honestly).

The Court of Appeal affirmed that the plaintiff, the purchaser of the reversion, was entitled to rescission of the contract on the ground of innocent misrepresentation because he had established the three things which must be established where such a ground is relied on, viz. (*a*) that the language relied on imported or contained a representation of some material fact, (*b*) that the representation was untrue, and (*c*) that, in entering into the contract, the plaintiff was induced to do so in reliance on it.

On the facts, the words 'believed to have no aggregable estate' impliedly represented that there were reasonable grounds for that belief because the vendor's knowledge of the facts relevant to the annuitant was superior to that of the purchaser and the name of his solicitors appeared on the conditions of sale.

Delivering the leading judgment of the Court of Appeal, Lord Evershed, M.R., applied a dictum of Bowen, L.J., in that Court in *Smith v. Land and House Property Corporation* ((1884) 28 Ch.D. 7, 15), where that learned Lord Justice, having said that in a case where the facts were equally well known to both parties what one of them said to the other was frequently nothing but an expression of opinion which, in so far as it was a statement of fact, about the condition of mind of the person expressing it, was only a statement of an irrelevant fact, since it was of no consequence what the opinion was, went on to say:

> 'But if the facts are not equally known to both sides, then a statement of opinion by the one who knows the facts best involves very often a statement of a material fact, for he impliedly states that he knows facts which justify his opinion.'

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Plea for Uniformity in Business Documents

SIR, – A visit to the recent Computer Exhibition, together with the leading article in your issue of December 6th, prompts this humble plaint. It is now possible to calculate the most complicated formulae and print the answers at phenomenal speeds. I cannot help wondering, however, whether this advance in the technical skill of handling information is not far ahead of the apparent inability of the business community to settle much simpler problems that have been with us for many years.

Having been concerned with mechanization in one form or another for over twenty years, I constantly experience a sense of frustration at the complete lack of uniformity of documents passing between one business house and another. It must be common experience of many of your readers, after having toiled for months on the development of a scheme, to find that it is the exceptions which threaten its ultimate efficiency. Some customers must have each invoice in duplicate; there will be certain to be some who want invoices in triplicate. There will be Government departments who will not accept your invoices at all and will demand seven copies of form 'XYZ', and borough councils who insist on receiving back their order with the invoice details marked on it.

In developing a system one gives consideration to the provision of inserting information for the customer. Obviously he will need to be told his order number, if indeed, he has sent an order. Quite likely he has not sent one, but will return the invoice because it bears no order number just the same. So we must give him his order number. How many digits is it reasonable to allow so that he may link up his invoice with his order? Few companies can send out so many orders that it is impossible to locate them within a series of five digits: surely it takes a little time to send out 99,999 orders. Let us be generous and allow seven digits, in case there is an alphabetical prefix. What do we find? 'Your invoice cannot be dealt with unless it bears this order number . . .' and then follows a number containing perhaps thirty digits interspersed with verticals; 'Our catalogue and part numbers must be shown on your invoice . . .'.

No sooner was the Cheques Act passed than every accountant was inundated with requests that statements be sent in duplicate. At least one Chamber of Commerce went to the length of advising its members to make this request. Ye gods! Since it is *our* statement of account, surely if we give the date and number of our invoice and the amount, this should enable the customer to recognize what we are talking about. But no, this customer must have his order numbers quoted on the statement; the other customer must have the date of his order quoted, and so it goes on. No one dare refuse because 'if you are going to lose a customer just because he asks for another copy of the statement, we shall soon be out of business'. Quite right, too. My company has to make its living in a highly competitive world and knows if the customer does not buy from us he can buy from somewhere else, however misguided we may think this to be.

Some years ago, the British Standards Institution produced a series of booklets on standardization in the office. As far as I can tell, these appear to have had not the slightest influence. Let it not be thought that it is the smaller people who always give this sort of trouble. On the contrary, the larger organizations are sometimes the worst sinners in making the most complex demands in the matter of documents and order numbers. To quote Gerard Manley Hopkins, 'Is there no one, nowhere, nobody, not at all' who can take the lead in cutting out all the waste of manpower which must arise from every organization being a law unto itself in this matter. I suppose it is expecting too much from the machine manufacturers to agree upon what is an invoice, because if they refuse to supply the machine which produces all the oddities a prospective client requires, he will go somewhere else and get it.

Yours faithfully,
FRUSTRATED.

Recommendations 18 and 20

SIR, – The correspondent whose letter appeared in your November 22nd issue may or may not be right when he says that the object of preparing a balance sheet is to show the proprietor the value of his business. He will be right where a liquidation balance sheet is concerned, but wrong in respect of the balance sheets included with the annual accounts of businesses. The object of preparing annual accounts for businesses is to ascertain profits, and anyone who tries to estimate the value of his shares by studying a published company balance sheet can blame himself for the consequences.

The Institute's new Recommendations 18 and 20 ignore this vital fact, and proceed on the basis that the function of both balance sheet and profit and loss account is 'to give a true and fair view' in the one case, of the state of affairs of the company, and in the other, of the profit or loss of the year. As I pointed out in an article on 'Accounting terminology' which you published in March 1957, these two objects are mutually exclusive, and no fair-minded accountant could assert that a balance sheet prepared in conjunction with an accurate profit and loss account was anything more than a

list of balances, most of which have a merely historical interest.

The fundamental obstacle which precludes a going-concern balance sheet from presenting a true and fair view is the distinction between fixed and current assets, a distinction rightly seized upon by the judicial mind as of crucial importance in balance sheet presentations, and incorporated in the Companies Act, 1948. Why the leaders of the accountancy profession should invite its members to flout the provisions of paragraph 4 (2) of Schedule VIII, as they do in Recommendation 18 (29) is incomprehensible. If they had recommended that the nonsensical provisions of Section 56 of the Act be ignored instead, I for one would have been greatly cheered.

The distinction between fixed and current assets does not rest upon intention, as the Council erroneously asserts (Recommendation 18 (31) and (35), Recommendation 20 (3)). It would be a poor look-out for accountants if they were made dependent upon the assertions of managing directors. It rests upon the fact that current assets are shown at current market value, and fixed assets are not. That is the reason why quoted investments should be grouped with current assets, since accurate profit determination requires them to be shown in the balance sheet at current market prices (less expenses of sale, of course).

The grouping required by the Companies Act would enable the reader of a balance sheet to separate the 'realistic' and 'unrealistic' figures it contains. This still would not enable him to make judgments about the value of his shares, but it would enable him to satisfy himself on the question of liquidity, and to follow its progress over the years.

To criticize the Council's Recommendations in detail would take too long; they make disappointing reading to those of us who look to our own professional body for leadership in the task of introducing an element of order into the subject of accounting. The problem is not solved by suppressing the titles 'assets' and 'liabilities' (Recommendation 18 (5)) or replacing 'net profit or loss' by 'trading surplus or deficit' (Recommendation 18 (41) and (50)). I can imagine a number of items which might enter into and form part of net profit, but which would be incorrectly described as 'trading surplus' components.

The unwillingness or inability to define lies behind the weaknesses of these Recommendations, and unless the problems of definition are tackled we shall simply drift further and further away from our true purpose, and end up as a body of unqualified legal advisers. It appears likely that there will be a spate of Recommendations to fill the handsome binders with which we have been presented, but I should like to enter a plea for quality before quantity. And is it necessary to go on using the word 'comparability' when the dictionaries deny its existence?

Yours truly,

Manchester. KENNETH S. MOST.

First Step to Decimal Money

SIR, – It is apparent that the acceptance of a decimal monetary system is likely to be difficult to introduce in this country, and as a first step towards making the public accustomed to the idea may I suggest that the present columnar method of recording money be dispensed with.

For example, instead of writing £12 7*s* 9*d*, it should be shown as £12.07.9 and £34 12*s* 11*d* would appear as £34.12.11; 16*s* 4*d* would be *S*16.4 and so on. Some device may have to be used to avoid the *S* being confused with 5, but otherwise it is at least a step towards decimalization even though the factors of a pound would at this stage be retained.

In any case figures printed by accounting machines often have this appearance.

Yours faithfully,

New Malden, Surrey. T. BARRETT.

Saying it with Poetry

SIR, – There has been a sequel to the correspondence which you published in your issue of December 6th.

This same client sent an estimated assessment notice for 1958–59, with the following verse:

To inspire me I besought my Muse,
Alas! quoth she, 'I must refuse,
For C.A.s are most busy men,
Alert all day with brain and pen.
Your letters must be short and terse,
Not blethers couched in doggerel verse'.
Therefore I send this vile assessment,
Fearfully hoping there's *much less* meant,
For if that sum I'm asked to pay,
Then tragedy! *Felo de se.*
Dear Sirs, don't waste your scanty time
In answering this in sparkling rhyme.
Just say 'With our continued help
The Inspector's doup we'll gladly skelp'.
PS. If 'doup' and 'skelp' are beyond your ken,
Chambers will supply the gen.

To this we replied as follows:

We gladly follow your advice,
So send the briefest little note.
The assessment made is not too nice,
But we have found an antidote.
The Inspector shows excess of zeal,
There will not be so much to pay.
We therefore sent in an appeal,
Will let you know by New Year's Day.

The trouble is, having begun this, how are we to stop? However, we shall not bother you again.

Yours faithfully,

FIFTEEN BY EIGHTEEN.

Depreciation and Replacement Cost

SIR, – I should like to endorse and perhaps emphasize the arguments put forward by Mr C. M. F. Bruce in favour of replacement depreciation cost in his letter published in your issue dated November 15th.

If, as Sir William Carrington says in his autumn

meeting paper, replacement depreciation costs are a matter of 'abstract economic theory', then the nation's accounts of income and expenditure, so largely relied upon in the guidance of the national economy, are based on 'abstract economic theory'.

When will accountants realize that the national economy is merely the sum of all the individual economies which enter into it, and, for the most part, depends on the results of all the individual, but interdependent, industrial and trading concerns which make up the business of the nation? The 'commercial accounting' of these concerns is no guide, and to some extent misleads, the compilers of the national accounts as to the total cost of depreciation.

The term 'depreciation', in the commercial accounting sense, is usually regarded as an expense rather than a cost, and even today is sometimes only charged if the 'profit' will bear the expense. Also it usually covers three separate categories of charge, viz. user cost (direct variable cost equivalent to the labour cost it replaces); idle time (oncost burden of having to keep the machine available for use); and obsolescence (financial loss owing to becoming out of date etc.).

User cost is the main cost in most cases, and it seems to me an anachronism for a concern to charge its labour cost according to the wages paid at the time the cost is incurred, while charging a percentage of the original cost of a machine purchased to replace labour, as depreciation.

I am really concerned as to what will happen when industry is fully automated, and accountants are faced with charging user cost in the same way as they would have charged the labour cost replaced by the automated machinery.

Yours faithfully,

Burgess Hill, Sussex. WM. E. SPRUCE.

ANSWERS TO 'A CHRISTMAS GAZETTEER'

The questions appear elsewhere in this issue.

1. Albany.
2. Aldeburgh.
3. Amazon.
4. Antarctica.
5. Bannockburn.
6. Bedloe's.
7. Boston.
8. Bromley.
9. Buenos Aires.
10. Cadiz Bay.
11. Camperdown.
12. Charleston.
13. Chile.
14. Clunton and Clunbury, Clungunford and Clun.
15. Deal.
16. Delft.
17. Dorchester.
18. Dover.
19. Dublin.
20. Eboracum.
21. Ecclefechan.
22. Edinburgh.
23. Ephesus.
24. Fife.
25. Finistère.
26. Flintshire.
27. Florence.
28. Gehenna.
29. Grand Canal, China.
30. Grasse.
31. Greece.
32. Guernica.
33. Haworth.
34. Hellespont.
35. Helston.
36. Herefordshire.
37. Independence, Missouri.
38. Inverness.
39. Ipswich.
40. Italy.
41. Italy.
42. Ithaca.
43. Jedburgh ('Jeddard justice').
44. Jersey.
45. Kedleston.
46. Kendal.
47. Knutsford.
48. Kut.
49. Lahore.
50. Laodicea (a laodicean).
51. Laputa.
52. Liverpool.
53. Los Angeles.
54. Marseilles.
55. Meath, Eire.
56. Mexico City.
57. Montana.
58. Mull.
59. Naples.
60. Northumberland.
61. Norwich.
62. Offa's Dyke.
63. Olney.
64. Ophir.
65. Orkneys.
66. Paraguay.
67. Piraeus.
68. Pittsburgh.
69. Poplar.
70. Quebec.
71. Rederring.
72. Rheims.
73. Rhodesia and Nyasaland.
74. Rocky Mountains.
75. Rome.
76. Scafell Pike.
77. Severn.
78. Sicily.
79. Speke.
80. Staffa.
81. Taunton.
82. Thermopylae.
83. Toledo.
84. Toronto.
85. Trasimene.
86. Turkey.
87. United States of America.
88. Uranus.
89. Venezuela.
90. Verona.
91. Victoria.
92. Vienna.
93. Wales.
94. Walmer Castle.
95. Weimar.
96. Worcester.
97. York.
98. Yugoslavia.
99. Zemmery Fidd.
100. Zutphen.

WOMEN CHARTERED ACCOUNTANTS' DINNER IN LONDON

The annual dinner of the Women Chartered Accountants' Dining Society was held at *The Hotel Rubens*, Victoria, London, on December 12th, with Mrs E. M. Wright, A.C.A., Chairman of the Society, presiding.

The guests included Lady Ogilvie, M.A., Principal of St Anne's College, Oxford, Mr W. L. Barrows, LL.D., J.P., F.C.A., President, The Institute of Chartered Accountants in England and Wales, and Mrs Barrows; Dr C. J. H. Topping, B.A., PH.D., and Mrs Topping, and

Dr K. Anderson, PH.D. (*Headmistress, North London Collegiate School*); Mr I. A. F. Craig, O.B.E., B.A. (*an Assistant Secretary of the Institute*), and Mrs Craig; Mr Leo T. Little, B.SC.(ECON.) (*Editor, 'Accountancy'*), and Mrs Little; Mr R. P. Matthews, B.COM., J.P., F.C.A. (*Member of Council of the Institute*), and Mrs Matthews; Mr J. D. Russell, M.A., F.C.A. (*Vice-Chairman, London & District Society of Chartered Accountants*), and Mrs Russell; Mr Arthur E. Webb (*Editor, 'The Accountant'*), and Mrs Webb; Mr F. T. Wright, F.C.A.

Training and Recruitment

Proposing the toast of 'The Institute of Chartered Accountants', Mrs Wright said the Institute was larger today than ever before and it undoubtedly faced greater problems and challenges.

No problem was more important than that of training and recruitment. Every successive generation had looked for greater standards of material well-being for the family and greater facilities for education of its children. There was every assistance to further those ambitions from public funds – money that poured out for university education for everybody with the ability to profit from it.

Money also came from industry and the banks who offered high rates of pay, comprehensive schemes of welfare and security and amenities of all kinds. Mrs Wright continued:

'It is small wonder in face of these inducements that parents too easily lose sight of professional qualifications. It is these problems which beset our profession today. . . .

'There is a certain amount of ignorance which still exists in our girls' schools and among women teachers about the profession of accountancy for women and the opportunities it can offer. This is something which can be remedied by each one of us at some time, either by being prepared to assist at schools where career conventions are being held or by giving help in individual cases.'

Mrs Wright said many young people coming down from the universities had little idea of what they wanted to do and that was the time to bring forward the idea of accountancy. She suggested that it might be helpful in the future to have post-graduate courses which would appeal to those women who virtually retired on marriage, and later wished to return to active professional life.

The Institute Needs more Graduates

In welcoming Mr Barrows, Mrs Wright said that in the seventeen years he had been a member of the Council of the Institute he had been closely concerned with those aspects of the work which involved students and their training and examinations.

Responding, Mr Barrows referred to the committee which was reviewing the whole problem of training and entrance to the profession – the Parker Committee. They had a difficult task; many members had for some time been anxious about the somewhat poor calibre of those coming in from the schools. He believed that was true of the country as a whole. Said Mr Barrows:

'We want more university graduates if we can get them. About 10 or 15 per cent of the articled clerks now are graduates and we need more.'

Mr Barrows referred to a brief which had been prepared for those who wished to talk at schools or elsewhere on accountancy, copies of which were available from the Institute. He also said he had formed the idea that there was a call for some sort of post-graduate study in management accountancy.

He commented that on reading a leading article in *The Accountant* on women chartered accountants he was surprised to find they were as numerous as one per cent of the Institute membership; it always seemed to him that there were few opportunities in their profession compared with those in the medical world. Looking round him he thought the Institute should take steps to recruit more women into the profession.

Miss D. M. Vaughan, B.A., F.C.A., proposing the toast of 'Education' welcomed Lady Ogilvie. She pointed out that with the wonderful machines that were now being developed the accountant of the future had to be someone who can understand those things. They were going to be people who had machines as slaves to do part of their routine work and this would release them to concentrate more on matters requiring thought and consideration and they must therefore have a broader education in every way.

Miss Vaughan said she hoped Lady Ogilvie would encourage the young women who passed through her college to think very seriously about accountancy as a profession.

Education and the Business of Living

Lady Ogilvie, responding, said she would try her best to put Miss Vaughan's exhortation into practice. They had a living example at the college in Miss Livock, the Bursar of St Anne's, who was a chartered accountant. She went on:

'I think there never was a time when it was more important that everybody in this country should be educated to the utmost of their ability. We need every skilled brain we can have in the country and there is work for everybody to do. I think it is better that we should aim high even though we are perhaps accused sometimes of trying to teach people beyond their abilities. After all, a man's reach should outstrip his grasp and you cannot judge people and their education by what they are at 21 or 25. You have to look much further into the future when they come back in the 40s and 50s when their families have grown up.

'Education is not necessarily for success but for the business of living and it is in these times, as we get older, that things we half understood when at school or university seem to mean most to us and to help us most.'

The toast of 'The Guests' was proposed by Miss J. Edwards, A.C.A., and Dr Topping responded.

UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

Annual Conference in Bristol

The annual conference of the Union of Chartered Accountant Students' Societies was held at Bristol on Friday and Saturday, December 5th and 6th. Delegates from twenty-five students' societies took part in the conference under the chairmanship of Mr G. B. C. Hughes, B.A., A.C.A., of London.

After opening prayers by the Rev. F. McCall, M.A., of Bristol, delegates were welcomed by Mr J. M. Higgison, A.C.A., President of the Bristol Students' Society. Portsmouth and District Chartered Accountant Students' Society was welcomed as a new member of the Union.

The chairman explained the conditions of full and frank discussion which obtained at the meeting to which the Liaison Committee of the Union were invited each year by the Council of the Institute. After some discussion of the possibility of a fuller report of the meeting, the statement issued by the Council was received.

Recommendations Adopted

During the year a special committee of the Union had reviewed the functioning of the conference with a view to improving its usefulness and reducing the cost. The conference adopted the recommendations that it continue to meet annually in different towns each year; that more exchanges of ideas between societies in the same region was desirable; that a steering committee plan each year's conference by amending and adding to resolutions and suggestions submitted by students' societies; that the local expenses of the conferences be borne by the Union; and that there be more publicity for the work of the conference and its committees. Proposals to reduce the number of delegates and to break up the conference into discussion groups, were rejected.

The report of the operation of the lecture panel and the accounts for the year 1957–58 were adopted and continuation of the levy at 1*s* 3*d* for 1958–59 was agreed.

A discussion on the possibility of obtaining more local examination centres ended with general agreement that the question in each area, if appropriate, should be raised with the district society.

Information was before the conference suggesting that there was a great deal of difference between local authorities on the application and size of grants to articled clerks. In general, it seemed that no grants were available, but some education authorities did make provision. The matter was referred to the Liaison Committee to take up with the Council of the Institute.

The high cost of textbooks was brought before the conference. Various suggestions for reducing the cost were suggested, but the only proposal which met wtih general approval was that books on income tax and other subjects needing frequent revision might be issued in paper bindings.

Memorandum for Parker Committee

The conference then turned to the request received from the Institute's Committee on Education and Training that a memorandum be submitted by the Union on behalf of students' societies. A committee was appointed to receive comments and suggestions, to submit a memorandum to the Institute committee and to take any subsequent action required.

The conference spent the Saturday morning session discussing an agenda designed to cover the whole field of education for the profession, so that the drafting committee could be made aware of the feelings and suggestions of the conference.

On the Friday evening the delegates and officers of the conference were entertained to dinner by the Bristol Students' Society.

STUDENTS' SOCIETY DINNER IN NOTTINGHAM

The annual dinner of the Nottingham Chartered Accountant Students' Society was held at Daybrook House, Arnold, Nottingham, on December 9th. The President of the Society, Mr E. D. London, F.C.A., was in the chair.

Among those present were Sir William Carrington, F.C.A., a Past President of The Institute of Chartered Accountants in England and Wales; Air Commodore W. C. Cooper, R.A.F. (Rtd.), C.B.E., M.A.; Mr T. K. Parr, J.P.; Mr H. T. Scothorne, F.C.A.; Vice-President of the Students' Society, and Mr A. J. Engeldow, A.C.I.I., President, Nottingham Insurance Institute.

The toast of 'The Institute of Chartered Accountants in England and Wales', was proposed by Air Commodore W. C. Cooper who spoke of the invaluable and, indeed, vital service the profession of accountancy gave to his own profession and to the industry of engineering. He also referred to the immeasurably high esteem in which accountants are held by engineers.

Prospects Abroad

In response, Sir William Carrington said he was glad to see that the students were to have a lecture on fraud the following day.

'Fraud is something that articled clerks must bear in mind in training and afterwards as practitioners', he said. 'Every man is not a criminal, but every man is born with some original sin in him.'

'Don't take every man at his own valuation. Use your initiative and make those decisions you and your seniors

feel are necessary and if suspicion is aroused, follow it up. Fraud persists, and human nature being what it is, will persist in all grades of society.

'We have a duty to try and protect the good name of British finance, commerce and industry in this country and abroad. There are over 3,000 chartered accountants working overseas in various capacities, and to those of you who feel that England is not what it might be, I would commend to you – after three or four years in this country – service in a Dominion.'

There were some very good opportunities overseas and a remunerative field of employment, said Sir William, who continued:

'Fame comes to men in various ways. We do not seek fame; we accumulate a vast amount of knowledge of men and matters as the years roll on. But unlike certain soldiers finding the pen, if not mightier, more remunerative than the sword, we do not set out to lay open the secrets of past confidences and say why we are so much better than the men we were working with.

'Above all else, the accountant does keep his clients' secrets. I cannot impress too strongly on students and articled clerks the importance of absolute secrecy on matters that come to their knowledge in the course of their experience.

'Many accountants could write illuminating reminiscences, but they don't because they have a higher sense of duty. I hope succeeding generations of students will have regard to that point', he said. 'Once the commercial community feel the accountant is not worthy of his confidence, then our profession is on the slide. I am not, of course, indicating that we are on the slide; we are on the up and up.'

Age of Mechanical Aids

Turning to the vast future open to co-operation between the engineer and the accountant, Sir William said:

'We are entering an age where the mechanical aids for the routine work we do are going to cut down the humdrum task.

'They will leave the accountant free to exercise his brainpower in planning work for the machines and interpreting the products of the machines and guiding his clients in a way of business that will be more profitable. They will also cut down waste, which must be cut down in these days of high labour costs and materials. We cannot do it alone, but I feel that in co-operation with engineers and management that way lies open to us and will greatly assist British industry to keep on top.'

Personality and Sense of Humour

The toast of 'The Nottingham Chartered Accountant Students' Society' was proposed by Mr T. K. Parr, who said that his advice to articled clerks was to maintain a determined hope to qualify in their important calling, but to remember to retain two essentials – 'your individual personality and your individual sense of humour'.

Replying, Mr H. T. Scothorne said that he did not think the grim routine of students produced good examination candidates. He looked forward to positive changes and improvements in the education and training of articled clerks as a result of the deliberations of the Institute's committee looking into these matters.

Referring to the wider scope of present examinations, he said he would prefer to see newly qualified men much more expert in a narrower range. There was an opportunity for introducing some degree of specialization, so that a five-year candidate could select subjects on which to concentrate.

'He should be examined at the end of five years at a much higher level than obtains at the moment', he suggested. 'It would do something to improve and make a much better man of the newly-qualified accountant. That system might open the door to post-qualification diplomas'.

Mr R. F. Cheetham proposed the toast of 'The Guests' and the response was made by Mr A. J. Engledow.

After the toasts, Mr W. G. Underwood, formerly secretary of the Society, made a presentation on behalf of the committee to its former chairman, Mr John Knight.

Notes and Notices

PERSONAL

MESSRS PRIDEAUX, FRERE, BROWN & CO, Chartered Accountants, of 12 Old Square, Lincoln's Inn, London, WC2, announce that Mr JOHN ANTHONY SMITH, A.C.A., who has been on their staff for seven years, is to be admitted into partnership on January 1st, 1959. The name of the firm remains unchanged.

MESSRS M. BIER & CO, Chartered Accountants, announce that they have removed their offices to 55 Hatton Garden, London, EC1. Telephone: Holborn 3911.

MESSRS OAKLEY, WEDERELL & CO, Chartered Accountants, formerly of Balfour House, 119–125 Finsbury Pavement, London, EC2, announce that they have removed to 9 Devereux Court, Strand, London, WC2. Telephone: City 7471–3. They also announce that the style of the firm is now OAKLEY, WEDERELL, CROUCH & CO, and they have taken into partnership Mr W. J. J. TINKER, A.C.A., and Mr R. S. CHAPMAN, A.C.A.

MESSRS SIDFORD & KEEN, Chartered Accountants, announce that as from December 14th, 1958, their London office formerly situated at 2 Guildhall Chambers, 31/34 Basinghall Street, London, EC2, has been removed to 4 Broad Street Place, London, EC2. Telephone: London Wall 4496.

PROFESSIONAL NOTES

Mr W. A. Dodd, M.A., LL.B., F.C.A., has been appointed chairman of Fred Taylor & Sons Ltd and Mr D. V. Stoddard, A.C.A., secretary of the company, has been appointed a director.

Mr K. G. Craddock, A.C.A., has been appointed chairman and managing director of Craddock Brothers Ltd.

Mr K. H. H. Barnes, A.C.A., has been appointed to the post of accountant of the London Life Association as from January 1st.

Mr E. B. Eagles, A.S.A.A., has been appointed deputy county treasurer of Middlesex.

SCOTTISH CHARTERED ACCOUNTANT HONOURED

The St Mungo Prize of £1,000 and Gold Medal for civic and cultural services to the City of Glasgow, has been awarded to Councillor John Donald Kelly, C.B.E., B.L., J.P., C.A.

A partner in the Glasgow firm of Thomas Kelly & Co, Chartered Accountants, Mr Kelly has been a member of Glasgow Corporation for the past twenty-three years and was city treasurer from 1949–52. He is Deputy-Lieutenant of Glasgow and among many public offices is President of the Royal Glasgow Institute of Fine Arts.

Excluding the war years, the St Mungo Prize has been made triennially since 1936 to persons encouraging the developments of the cultural standing of the City of Glasgow.

CHARTERED ACCOUNTANT IN NEW AUSTRALIAN GOVERNMENT

Mr Allan Shallcross Hulme, F.C.A.(AUST.), has been appointed Minister for Supply in the new Australian Government announced by Mr R. G. Menzies last week.

Mr Hulme, who is aged 51, is a partner in the firm of Cullen-Ward & Co, Chartered Accountants, of Brisbane. He has been chairman of the Commonwealth Immigration Planning Council since 1956.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the Executive Committee, Sir William Carrington, F.C.A., President of the Association, and eleven members were present.

Applications for Assistance

Three new applications for assistance were considered. In one case a grant was made for one year; a donation was given in the second case and the third application was refused.

Applications for Further Assistance

Eighteen cases for further assistance were considered. In ten cases the grant was renewed; in five cases it was increased and in three cases it was reduced owing to improved circumstances.

Matters Reported

The Hon. Secretary reported changes in the circumstances of fifteen beneficiaries during the last quarter and grants were adjusted in appropriate cases. One beneficiary had remarried and another had been accepted by Crossways Trust as a resident in Ridgemead House, Englefield Green, Surrey.

Christmas Food Parcels

It was decided to send Christmas food parcels to beneficiaries except those resident in Homes to whom small cash gifts would be sent.

IN PARLIAMENT

Surtax

Mr ARBUTHNOT asked the Chancellor of the Exchequer what would be the cost of confining the incidence of surtax to taxable income as computed for income tax purposes.

Mr SIMON: About £40 million.

Mr ARBUTHNOT asked the Chancellor of the Exchequer what would be the cost of raising from £2,000 to £3,000 the starting-point of surtax.

Mr SIMON: To move all the rates of surtax up the income scale by £1,000 would cost £45 million a year.

Mr ARBUTHNOT asked the Chancellor of the Exchequer what would be the cost of putting an overall ceiling of 15*s* on the combined level of income tax and surtax on any part of a taxpayer's income.

Mr SIMON: I am not clear what my hon. friend has in mind; but if it is to retain the present surtax scale on incomes up to £6,000 when the rate now reaches 6*s* 6*d* in the pound and to charge all incomes in excess of that amount at 6*s* 6*d*, so that the maximum combined rate of income tax and surtax was 15*s* in the pound, this would cost about £17 million a year.

Hansard, Dec. 8th, 1958. Written Answers. Col. 13.

Suez Canal Company: Compensation Payments

Mr WOOLLAM asked the Chancellor of the Exchequer why the Inland Revenue has ruled that distribution by the Suez Canal Company to United Kingdom residents of compensation received from the United Arab Republic will be subject to United Kingdom income tax; and whether he will have this ruling reconsidered, having regard to the losses already suffered by these United Kingdom residents arising out of the actions of the United Arab Republic.

Mr SIMON: The question here is one of interpretation of the income tax law and the Inland Revenue is advised that the distributions in question will constitute income chargeable to tax if received by shareholders resident in the United Kingdom. A shareholder will be entitled to appeal against any assessment made on him.

Hansard, Dec. 8th, 1958. Written Answers. Col. 14.

APPROVED AUDITORS: FRIENDLY SOCIETIES

The Chief Registrar of Friendly Societies has issued a supplementary list of approved auditors, giving the names of 181 new appointments and the names of sixty whose appointments have been discontinued.

CORRECTION

In the 'Weekly Note' last week, announcing his election to the Council of The Institute of Chartered Accountants in England and Wales, Mr R. P. Matthews, B.COM., J.P., F.C.A., was stated as being 'a partner in the firm of Chas. W. Rooke, Lane, Stubbs & Co'. This should have read 'a partner in the firms of Chas. W. Rooke, Lane & Co, and Rooke, Lane, Stubbs & Co'.

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THE DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS

Sir Ivone Kirkpatrick, G.C.B., G.C.M.G., former United Kingdom High Commissioner for Germany, will speak on 'Modern diplomacy', at a meeting of The Dublin Society of Chartered Accountants to be held on Tuesday, December 30th, at 1 p.m. Meetings arranged by the Society for the new year are as follows:

January 14th, at 1 p.m.: Luncheon meeting. Speaker: Mr Sean Lemass, Minister for Industry and Commerce. (*Members.*)

January 20th, at 6 p.m.: Paper by a cross-channel speaker, 'Methods of staff selection and management'. (*Industrial and Administrative Group.*)

January 28th, at 6 p.m.: 'Encouragement for industry', by Dr J. P. Beddy, chairman, Industrial Credit Co Ltd. (*Members.*)

February 19th, at 1 p.m.: Luncheon meeting. Speaker: Mr T. L. Plewman, F.C.A., President of Leicestershire and Northamptonshire Society of Chartered Accountants. (*Members.*)

March 5th, at 6 p.m.: 'Company law', by Mr Arthur Cox, Solicitor. (*Members.*)

March 19th, at 6 p.m.: 'Any (tax) questions?' – Taxation forum under chairmanship of Mr Justice Carroll O'Daly, chairman of the Income Tax Commission, presiding over a panel of four experts. (*Members.*)

May 1st, at 7 p.m.: Annual dinner. (*Industrial and Administrative Group.*)

May 23rd–25th: Institute's golf meeting – Rosses Point.

Students' Group

The following meetings are among those which have been arranged by the Students' Group:

January 14th, at 5.45 p.m.: 'Branch accounts', by Mr T. P. Crowley.

January 22nd, at 5.45 p.m.: Debate with the Solicitors' Apprentices. (*Home.*)

February 12th, at 5.45 p.m.: 'Production control', by a senior consultant, Urwick Orr and Partners (Ireland) Ltd.

February 26th, at 5.45 p.m.: 'Export relief and the taxation of foreign income', by Mr F. N. Kelly.

WEST WALES STUDENTS' DINNER-DANCE

One hundred and two members and guests attended the annual dinner-dance of the West Wales Chartered Accountant Students' Society at *The Osborne Hotel*, Mumbles, Swansea, on Wednesday, December 10th. Among those present were:

Mr J. C. Montgomery Williams, F.C.A., (*Member of the Council of the Institute*); Mr P. E. Couse, (*Birmingham Chartered Accountant Students' Society*); Mr M. R. T. Sills, (*Liverpool Chartered Accountant Students' Society*); Messrs P. Tyrer and J. G. R. Romary, (*Bristol Chartered Accountant Students' Society*); Mr A. Matter, (*South Wales and Monmouthshire Chartered Accountant Students' Society*); Mr B. R. Turner, A.A.C.C.A., (*Swansea Certified Accountant Students' Society*); Mr A. Barnet, (*Swansea Law Students' Society*).

The dinner was followed by dancing to the resident orchestra until 1 a.m.

SOUTH WALES AND MONMOUTHSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

A joint meeting of the South Wales and Monmouthshire Society of Chartered Accountants and the Association of Inspectors of Taxes (Cardiff Centre), was held at Cardiff recently, when Mr B. Rowe, F.C.A., President of the Society, presided.

The meeting, which took the form of a brains trust, was led by a panel of six. Representing the District Society were Mr L. V. West, F.C.A. (Cardiff), Mr J. D. R. Jones, F.C.A., (Newport), and Mr Paul F. Spurway, M.A., A.C.A. (Cardiff); the three representatives of the Association of Inspectors were Mr E. L. Walker (Pontypool District), Mr G. Brown (Newport 3rd District), and Mr E. K. Pearson (Cardiff 4th District).

Questions of mutual interest and benefit were dealt with and a vote of thanks to the members of the panel and to Mr E. Ewart Pearce, M.B.E., J.P., F.C.A., who had arranged the meeting, was proposed by the President, and seconded by Mr Ivor Griffiths, F.C.A.

SOUTHEND-ON-SEA CHARTERED ACCOUNTANTS' GROUP

At the tenth annual general meeting of the Southend-on-Sea Chartered Accountants' Group it was decided to enlarge the committee to include a member from the former Society of Incorporated Accountants: the 1958–59 officers and committee are as follows:

Chairman: Mr A. J. Wilson, F.C.A.

Vice-Chairman: Mr Harold E. Hassell, F.C.A.

Hon. Secretary: Mr A. A. Stewart, A.C.A., Flat 3, 1 Clifton Terrace, Southend-on-Sea, Essex.

Hon. Treasurer: Mr Kenneth W. Kyle, F.C.A.

Hon. Press Officer: Mr John Kennedy Melling, A.C.A.

Committee: Messrs Leonard W. Free, F.C.A., Maurice A. Wren, A.C.A.

CERTIFIED ACCOUNTANTS' COMPUTER COURSE

'The accountant as the adviser and co-ordinator in electronic data processing', will be the theme of a week-end school which The Association of Certified and Corporate Accountants will be holding at The Queen's College, Oxford, from April 10th to 12th, 1959.

Papers will be submitted on three subjects: an introduction to electronic computers; feasibility study – fundamental thinking on integrated systems; and electronic data processing applications – present and future. Members taking part in the school will separate into study groups after the submission of each paper. The author of each paper, assisted by a panel of experts, will deal with any points raised by group leaders at a subsequent session.

An attendance fee of 32*s* 6*d* per day will be charged to cover the cost of accommodation and all meals. Members wishing to attend the school are requested to submit their names and addresses to the Secretary of the Association as early as possible as accommodation at the college is strictly limited.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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THE INCOME TAXPAYERS' SOCIETY

1958 Supplement to Index of Tax Cases

With the publication of the *1958 Supplement to Index and Digest of Tax Cases*, the Income Taxpayers' Society has completed twenty-five years of non-technical reports for members. This is the first annual supplement and covers cases during the year ended July 31st, 1958.

By the introduction of both an alphabetical and a subject-matter index prepared cumulatively with the 1957 supplement, quick reference can be made to the previous judgment in cases where for instance there has been an appeal. The publication is available only to members of the Society.

MANAGEMENT COURSES

'Work simplification in the office' is the subject of one of a series of courses which the Department of Management Studies of The Polytechnic, Regent Street, London W1, has arranged for the New Year. The course, which commences on January 13th, 1959, will be held on alternate Tuesday mornings and is designed to interest office managers in the importance and possibilities of simplifying office processes. An evening counterpart of the course, entitled 'Organization and method' will commence on January 28th, 1959.

A fifteen-week course on 'Management accounting' is to be held on Wednesday afternoons from 2 to 5 p.m., beginning on February 11th, 1959, and will deal with financial planning and techniques for the control of business operation, including standard costing and budgetary control. There will be an evening counterpart of the course commencing on January 29th, 1959.

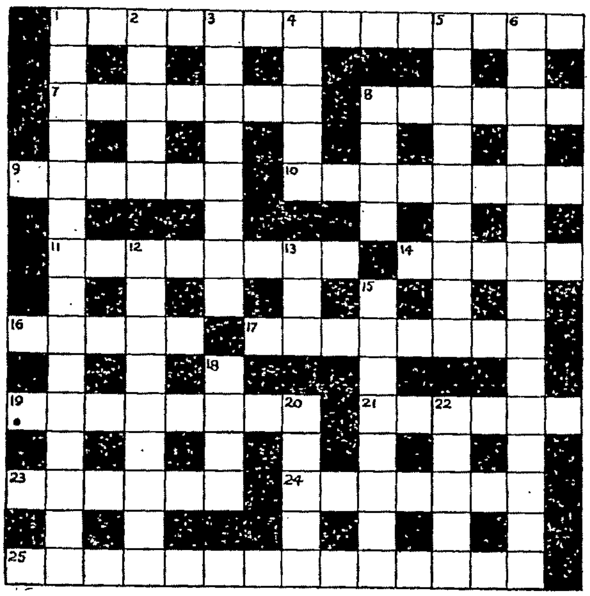
Further details regarding these courses may be obtained from the Department of Management Studies, St Katharine's House, 194 Albany Street, London, NW1.

RESIDENTIAL COURSES FOR SENIOR EXECUTIVES

Among a series of residential courses arranged by the Sundridge Park Management Centre throughout 1959 are a comprehensive series of three-week residential courses for senior executives on the subject 'Measurements for management'. Each course – which is repeated about eight times – will stress the need for measurements in the field of management and will show how such measurements can be made in the major aspects of accounting, sales and marketing, production and personnel. The inclusive residential fee for the three-week course is £150. Further information may be obtained from The Director, Sundridge Park Management Centre, Bromley, Kent.

CROSSWORD FOR CHRISTMAS

Compiled by Kenneth Trickett, A.C.A.



ACROSS

1. Beneficiary (6, 3, 5).
7. 'The —— of duty is the bringing of reasonable care and 20 . . .' (*The Irish Woollen Co Ltd v. Tyson*) (7).
8. In short supply? Hardly (6).
9. One close on fifty, of one dimension (6).
10. Somerset House, perhaps (8).
11. Take this punched-card device for choice (8).
14. Occupation defined in Section 526, Income Tax Act, 1952 (5).
16. Deposit (5).
17. Person sued in Scotland is evidently on guard (8).
19. See 2.
21. Broken cues do for a foreign currency unit (6).
23. '. . . the amount of the —— and first fruits . . .' (Section 93, Income Tax Act, 1952) (6).
24. Audit (7).
25. This official of the Board of Inland Revenue doubtless keeps albums (5, 9).

DOWN

1. Authorize a fellow who receives a percentage (10, 5).
2 & 19 ac. Distribute the writs in a form that a private company may not issue (5, 8).
3. Liferent (8).
4. Street of debtors (5).
5. Confirmed, as the insurance company might have done (9).
6. Director reduces so as to be sure of recovery (7, 8).
8. Notice how you write your name (4).
12. A sort of index (9).
13. Individual of which 12 comes to naught (3).
15. One to whom an estate is surrendered (8).
18. In various colours, they are useful to the auditor, but may damage the skin (4).
20. 'The 7 of duty is the bringing of reasonable care and —— ' (*The Irish Woollen Co Ltd v. Tyson*) (5).
22. The Treasury? (5).

The solution will be published in next week's issue.

COMPANY REPORT

JOSHUA TETLEY & SON LTD

IMPROVED RESULTS

COL. F. ERIC TETLEY ON CURRENT TRADING

The sixty-second annual general meeting of Joshua Tetley & Son Ltd was held on December 19th at the Registered Office of the company, The Brewery, Leeds, 10, Col. F. Eric Tetley, Chairman of the company, presiding.

The secretary of the company, Mr Robert F. Tetley, read the notice convening the meeting and Mr K. A. McKinlay, of Messrs Peat, Marwick, Mitchell & Co, read the report of the auditors.

The chairman said: Ladies and gentlemen, it is again my privilege to move the adoption of the report and accounts. I am pleased to report to you that the results of the year have shown a slight improvement on those of last year.

The total income of the group has been £10,777,078, or an increase of £152,552 over the previous year. This income has been disposed of as follows below:

	Per cent
Beer duty	47·74
Taxation	5·61
Materials and production costs including excise duty on wines and spirits	21·81
Wages, salaries, national insurance and pension schemes	8·22
General trade expenses	8·77
Depreciation and reinvestments in business	4·68
Interest on borrowed money	1·11
Dividends less tax	2·06
	100·00

Taxation has been at the rate of 11*s* 7*d* in the £ as against 12*s* a year ago. This is mainly due to the changes in the provisions for profits tax of which we have had the benefit for six months.

There is an increase in the profit disposable after taxation of some £20,000 and after making appropriation of profits which we have deemed necessary we are able to recommend a final dividend of 6·9 per cent on the increased ordinary capital which makes a total dividend for the year of 10½ per cent on the increased capital as against the equivalent of 10 per cent a year ago.

Mention was made in the chairman's statement of the probable deterioration during the coming year of the liquid or current asset position but it is hoped that about the time the new Herries Road Stores in Sheffield open we shall complete the sale of the Duncan Gilmour Brewery to the Sheffield Corporation. The proceeds of this sale will be of some assistance to our liquid position.

Current Prospects

You would expect me, no doubt, to say a word about the prospects of the coming financial year. I will not attempt to prophesy but I can say that I shall be satisfied if our profit figure is not less than that of this year. Depreciation charges will be heavier as the extension to the Bottling Store in Leeds and the Herries Road Stores in Sheffield come into operation, though against that we hope can be set some considerable economies in operation. We shall also, no doubt, have to face another increase in wages. Raw materials will we hope be a little cheaper than last year and this can be set against some of the increases in costs. Our main hope is that we can maintain or improve our sales. We have recorded small increases in the months of October and November and if sales are maintained, the results of the current year should not fall far short of those of 1957–58.

Chairman's Tribute

It now only remains for me to thank everyone in the group including my co-directors, the staff and work-people of the brewery and the managers and tenants for all their efforts and hard work during the year. I feel that I am leading a happy team which has very much at heart the interests of the whole group.

I now beg to move the adoption of the report and accounts and will ask Mr M. H. Tetley to second the motion.

Mr M. H. Tetley having seconded the motion, the report and accounts were then unanimously adopted, the dividend approved as proposed by the directors and the other formal business having been duly transacted, the proceedings terminated with a vote of thanks to the chairman for presiding.

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The Professional Year

COMPARED with the alarms and excursions of last year – the alarms being the series of integration decisions made by the former Society of Incorporated Accountants and the three Chartered Institutes and the principal excursion being to the Seventh International Congress on Accounting at Amsterdam – 1958 has been a year of comparative uneventfulness in the accountancy profession. The mechanics of the integration scheme have been implemented with the 'quiet, calm deliberation' one has come to expect of the secretariats of the three Institutes and everyone, whatever their personal views, has accepted with good grace the newly-established order.

Apart from the annual Finance Act, which provided for the welcome abolition of the two-tier profits tax structure, there was no legislation promulgated in 1958 of outstanding interest to the profession. The practical consequences of the Cheques Act, which was made law on October 1st, 1957, became apparent during the year, but co-operation between auditors and clients ensured generally that the transition was smooth. To the regret of many accountants, MR GRAHAM PAGE, who piloted the Cheques Bill through the House as a private Member's measure, had to withdraw his Wages Bill after the debate on the second reading. The principle of paying wages by cheque or bank transfer was accepted by most members but the Bill, the Government thought, ran contrary to the provisions of the Truck Acts which, although all but forgotten, are still on the Statute Book. MR PAGE, who had expressed his intention of re-presenting his Wages Bill at the first opportunity, is now supporting a similar Bill presented by MR PATRICK MAITLAND and which is due to have its second reading on February 27th.

In 1958, the difficulty of attracting suitable recruits in sufficient numbers to the profession in the face of keen competition for their services with wealthy industrial and commercial organizations became more acute. Two active moves to tackle the problem were announced during the year. The first was in February when the Scottish Institute appointed a special committee to consider and report to the Council upon the future policy of that Institute and one of the five main items to be examined was the question of how to attract enough apprentices of the right type. The second was in August when the English Institute set up a committee under the chairmanship of MR W. E. PARKER, C.B.E., F.C.A., to consider and make recommendations on the most appropriate forms of professional education and training.

The improvement in the standards of presentation of company

financial accounts, so marked in recent years, was well maintained in 1958. The trophies given by this journal for merit in the form and content of such statements were won by the Peninsular and Oriental Steam Navigation Company and John Dale Limited. The awards were of equal merit, but, as usual, one was given to a company whose accounts were less complex than those of larger concerns. In this connection, the chairman of John Dale Limited at the presentation ceremony expressed his pleasure at 'following in the wake of the P. & O.'.

Three summer conferences of accountants were held this year, all in September. The Institute's course at Oxford was enlarged in view of the greatly increased membership consequent upon the integration scheme and Merton College, as well as Christ Church, was used on this occasion without detriment to the corporate success of the gathering. The Scottish Institute's school at St Andrews University was, from all reports, as good as ever and The Institute of Cost and Works Accountants furthered its pleasant association with St Catharine's College, Cambridge, in a marathon school which began on a Monday and lasted until the following Saturday. In addition, the English Institute held its biennial autumn meeting in London in October when three outstanding papers – two on the future of the profession and one on the progress of tax reform – were delivered.

For the first time in its history, The Association of Certified and Corporate Accountants reported early in the year a membership of more than 10,000. In round figures, the English, Scottish and Irish institutes began 1958 with respectively 20,000, 6,300 and 1,300 members. At intervals throughout the year, the vast majority of the former Society's 11,500 members were admitted to the English Institute so that, with the normal annual accessions of new members, the total strength of the profession (coming within the terms of Section 161 of the Companies Act, 1948) must be approaching, if it has not already surpassed, 50,000. It is estimated that only approximately 1 per cent of the chartered and certified accountants in this country are women as compared with a corresponding representation among certified public accountants in America of around 2 per cent.

During the year, the English Institute made a notable start with its new Members' Handbook by issuing the binder for Part I, together with the Royal Charter and bye-laws, a revised set of the Council's Recommendations on Accounting Principles and two statements on mechanized accounting, one issued originally in 1949 and the other in May of this year. The principal changes in the recommendations were that No. 2 (on war damage insurance) and No. 7 (on the disclosure of subsidiary company information in the accounts of holding companies) being now obsolete for one reason or another, were not reprinted, that Nos. 4 (in part), 5, 6 and 8 were incorporated in a new recommendation No. 18 entitled 'Presentation of balance sheet and profit and loss account' and that Nos. 1, 3 and 4 (in part) were included in another new recommendation, No. 19, on 'Treatment of income tax in accounts of companies'. Later, the Council followed this up with Recommendation No. 20 – 'Treatment of investments in the balance sheets of trading companies' – and a set of notes entitled 'Business efficiency; the contribution which the accountant can make'. Among other important publications during 1958 was a study published by the British Institute of Management with the self-explanatory title of 'Interfirm comparison for management'. The technique described is so far little known in Great Britain although it is extensively practised in Europe and America.

Two items concerning individuals are worthy of special mention. The first is the retirement of Mr Stanley J. D. Berger, O.B.E., M.C., F.C.I.S., director and secretary of The Institute of Cost and Works Accountants, after thirty-three years of splendid service to that body. The second is the election of Sir Harold Gillett, M.C., F.C.A., as Lord Mayor of London. Sir Harold is the fourth chartered accountant in the last twenty-five years to be appointed to that high office.

One of the new Lord Mayor's early duties was to open the first Electronic Computer Exhibition ever to be held in Europe, at Olympia. This was an event of some importance to accountants who are now fully aware that electronic processing is well on the way to revolutionizing both accounting and auditing. It is never safe to prophesy at the end of one year what lies in wait for the next but it is reasonably certain that in 1959 the computer will become an indispensable adjunct to an ever-growing section of the business population.

Materials Loss Control

by HARRY DUGDALE, A.A.C.C.A., F.C.W.A., A.M.B.I.M.

THE control of materials loss in industrial manufacturing processes is a matter requiring careful prior investigation followed by continuous review. The loss will occur mainly during the production cycle, although some measure of control is feasible prior to the actual commencement of manufacture. Where the production cycle involves many processes, the possibility of loss occurring on a greater scale cannot be ignored. As a result, continuous control throughout production may well be demanded if the loss is to be reduced to its lowest proportions.

Types of Materials Loss

Loss of materials may evidence itself in a reduction in the expected volume of end-product, irrespective of whether the latter be in the same form as it was at the commencement of processing or on the other hand in a changed form. In some cases, also, the loss may affect the quality of the output. It may be caused by one or a combination of factors, the existence of which needs to be ascertained as a condition precedent to control. The following are but a few examples of the many causes of materials loss that may occur:

(1) inadequate yield resulting from an inherent defect in the basic raw materials rather than to inefficient control during manufacture;
(2) inefficiency during manufacture;
(3) preparation of too large a quantity (for instance in processes where the use of a liquid 'mix' is required). If the 'mix' is one which will not keep for later use, loss may be incurred due to the residue having to be thrown away at the end of each working day;
(4) incorrect storage before manufacture.

In the case of (1) above, control will normally take place before the materials are put into production, e.g. by quality control through, say, chemical analysis. Regarding items (2), (3) and (4), however, managerial control should operate, aided by standards of processing, 'mix' quantities, and storage. Item (2) (loss through inefficiency in manufacturing) may be caused by a variety of factors. For example, there may have been inadequate temperature control in heat processes; the time element may not have been effectively observed in mixing processes; preparation of a 'mix' and its subsequent feeding to a machine may, in the absence of effective supervision, result in excessive 'slop-over' waste.

Where an end-product shrinks during the course of manufacture, the non-availability of a standard yardstick for such shrinkage can result in excesses under this heading, causing a decrease in saleable product and an increase in unit cost. In machine and inspection operations, too rigorous limits – if not demanded by the projected end-use of the product – can slow up manufacture, increase the annual cost of rejects, and reduce the number of products for sale. Where scrap arises in manufacture the absence of adequate control may lead to excessive wastage. Effective control is likewise required in the case of ancillary materials whose annual cost incidence may be noteworthy, e.g., coal used in steam-raising. Careful surveys of steam-raising efficiency often point the need for and the way to greater economy in this important sphere of industrial cost.

The effect of materials loss in manufacture depends on the incidence of the cost of materials in product total cost. Where the incidence is high, attention to loss control may have more significant results than in the converse circumstances. But even in the latter case, it is frequently a salutary exercise to examine the annual amount expended by an industrial company on materials, and to compute the gain which would be produced by a 1 to 5 per cent saving in materials consumption.

Loss in Storage

The approach to materials loss control can not be haphazard. On the contrary, it needs to be thoroughly searching if maximum control is to be obtained. In such a review a start may be made with the subject of storage.

Materials stores should be effectively organized and operated. They should meet any specific criteria of temperature which the materials demand for proper conditioning; be laid out for speedy service, and thus readily accessible to production centres. Dangerous or fire-hazardous materials will demand specific consideration and compliance with legislation bearing thereon. Particular attention needs to be directed to formulating minimum stock levels, in order to obviate 'tying-up' liquid resources in slow-moving stocks. Perpetual inventory checking should operate to detect variances between actual

and 'book' stocks, and to determine their causes for remedial action. Some concerns have half-yearly reviews to ascertain whether they are carrying redundant stocks of materials (including materials for plant maintenance), with the object of selling such material as is disposable and establishing if necessary lower working stock levels for the future.

Ensuring that adequate control is maintained over materials while in store may well prove a much easier exercise than that needed for control during production. The approach to the latter, it is suggested, should be analytic. Thus, the specific production cycle must be scheduled for each type of product, showing where materials are used in its manufacture. Each process should then be studied *in situ*, noting how the materials are put into process, what governs the quantity used (and, more important, *what should* govern such quantity), who sanctions the obtaining of excess materials and the treatment of residual materials, the procedure appertaining to both of these factors, and the causes of waste and loss of materials. When the answers to these questions have been obtained, the data should be reviewed for actual or potential avenues of wastage. Moreover, available data of input and output quantities should be brought into the consideration, as an initial approach to the establishing of a standard loss factor for use in conjunction with product standard costs.

Production Loss

If the loss of materials during production is to be controlled at an economic level, its extent should be predetermined. Obviously, the important starting-point in this connection will be the existing recipes or specifications of materials. These should be reviewed (and laboratory tested where necessary) with the object of determining the quantity relevant to the required quality of the end-product, so that, say, unnecessarily high standards are not maintained with an uneconomic repercussion in costs. Technological research should prescribe what is required, following tests to ascertain if an existing specification can be amended to provide – without diminishing the quality of the product – a lower materials cost.

From this point, a searching review of materials in use is needed. This may include not only the manner in which they are introduced into a manufacturing process, but also the basis of computation of the quantity required for particular 'runs'. This work-study approach should elicit whether there are, in fact, any causes of excess loss in any process. Thereafter, ways of eradicating such loss need to be developed and put into operation as quickly as possible.

Many industries, moreover, incur considerable expense on packaging material. Here, too, there should be a thorough review, leading to the setting of standards for packaging operations and materials in respect of each product.

Establishing Loss Standards

Prescribing the materials specification of a product is one of the preludes to a computation of its standard cost. But this is not its sole use: the complement of a materials loss standard needs to be established, and written into the control procedure as a yardstick. In other words, where several materials are embodied in a mixture which will emerge as an end-product in a different form, the ascertainment of venues and causes of loss should enable an economic provision for this to be built into the materials standard recipe. A specified quantity of input raw material is thus postulated as the requirement for producing an expressed quantity of end-products.

From this point, a control procedure needs to reveal whether (*a*) more than the standard input of raw materials has been required, and (*b*) any adversely excessive yield variance has supervened in any batch processed. At least two procedures may be adopted in this connection. First, where more than standard quantities are needed they should be requisitioned on excess materials notes signed by the responsible production executive. This procedure draws managerial attention to the fact that potential excess materials cost is imminent. An investigation can be thus made into the causes and appropriate remedies taken. Secondly, production reports as to yield should continuously be available for comparison with the expected standard yield. From such comparisons, yield variance data in both monetary and quantitative terms may be extracted for use by management.

An evaluation of yield variance is achieved by the application of appropriate standard cost accounting technique. Thus, the actual output is compared with the expected standard output; any quantitative variance between the two is computed; and such variance is then evaluated at the materials standard cost per product unit. In addition to yield variance, of course, there may be a further variance created by excess materials usage. The monetary incidence of this is ascertained by evaluation at standard purchase prices of any excess materials requisitioned.

Situations arise in various industries where the finished output at the end of one production cycle becomes the 'raw material' for processing by another department. Standard yields need to be established here, so that the control yardstick of expected standard output (at the end of the second production cycle) is available, and can be used again in the calculation, where applicable, of the second stage yield variance.

The materials cost sector of product standard cost will include a provision for the cost of the expected standard loss of materials arising during production. Thus, the standard quantities (including those representing the expected loss) will be specified as needed to produce a defined quantitative output of product.

Materials Loss and Production Reports

If materials losses are to be ascertained and controlled, adequate reports must emanate from manufacturing departments. The reports should reveal quantities of products (or sub-products) manufactured or processed in the various cost centres. The raw materials involved will be dealt with through an appropriate requisitioning system and linked to the production in which they were involved by works order or batch numbers. The standard materials value of actual output may thus be calculated for comparison with the relevant actual costs of materials – and any variance arising can be analysed into its constituents of (*a*) yield and (*b*) excess quantities.

Meanwhile, physical control and supervision should operate throughout the production cycle. If any 'runs' reveal adverse yield variances, the facts should be known immediately to enable prompt inquiry to be made.

Financial Aspect of Materials Loss

Mention has been made of the manner in which materials loss control can be instigated *in situ* on the factory floor. Possibly the immediate concern of a production executive will be to know the quantitative incidence of an adverse yield. He will doubtless be versed in relating input with output expectancy. His first reaction may well be the ascertainment of the number of product units lost as a result of an adverse yield.

It is submitted, however, that for cost consciousness to operate at its most significant level, the quantitative comparison needs to be supplemented by data showing the cost of the adverse yield variance. This should be a feature of the departmental operating statement normally used in a well-developed scheme of management accounting. Summarized in such statement will be the production report relating to the short-term accounting period, showing output quantities, their standard and actual costs, and any supervening variances. These data should be analysed on the statement under cost centre headings, so as to emphasize the venues of excess waste and loss. They should, moreover, reveal the following facts:

(1) the actual output;
(2) the standard output expected from the input materials;
(3) the yield variance, if any, with a report on the causes;
(4) the materials' standard cost of the output;
(5) the standard cost of the input materials;
(6) the cost of adverse yield variance;
(7) the standard cost of excess materials usage.

An adverse yield, causing a loss in saleable output, can operate also to create an adverse volume variance on the quantity thus foregone. The financial incidence of this variance is computed and revealed on operating and budget statements.

When an integrated accounting scheme operates, due prominence is given to the monetary effects of variances through the use of variance accounts. These should reveal separately the cumulative incidence of each class of variance throughout the financial year. In the case of materials' cost variances, therefore, the appropriate variance accounts in the integrated nominal ledger should include:

(1) excess materials' usage variance account;
(2) yield variance account (or scrap and rejects variance account);
(3) purchase price variance account.

Information to Management

Prompt transmission of data on the quantitative and financial incidence of materials loss is essential for maximum control efficiency. Control at point of use is the *sine qua non*. This may be achieved, as has been shown, by use of the excess materials note technique, and by speedy reports of actual versus standard yields to responsible production executives at the end of each 'run'. The possibility may exist of assessing yields during the course of the run, thus rendering control more effective by giving the opportunity of correcting any tendencies to adverse yield prior to the completion of the batch.

Executives most needing materials control information are usually those in charge of the manufacturing departments; the organization should work with this as a major objective, linked with an appreciation of the value of speed in supplying such information. Following the initial

reporting will be the data showing the financial incidence of adverse yields and of excess materials consumption. Such data are furnished to production executives on operating statements, and their overall incidence summarized for top management in the short-term profit and loss account. They reveal departures from predetermined costs.

Effective profit planning depends not only on selling a prescribed volume and variety of product at expressed selling prices, but also on manufacturing and marketing the products at their predetermined costs and selling prices. As adverse cost variances will erode the profit plan, the fullest attention should be directed to their avoidance. Materials cost control, therefore, is an important sector demanding continuous attention of a rigorous and inquiring nature.

European Commentary – III

by KENNETH S. MOST, LL.B., A.C.A.

Accounting and Operational Research

L'ORGA – LA COMPTABILITÉ (Paris) for October, contains the text of an address given by Monsieur G. Commesnil to the Thirteenth National Congress of Accountants, the theme of which was 'Ratios – statistics – conjunctures'. M Commesnil stressed the importance of combining accounting and statistics for purposes of business management. Whereas book-keeping was primarily concerned with recording the past, statistical techniques could be used to create 'models' in order to ascertain the probable result of taking a certain decision. The phrase used to describe this type of combined accounting and statistics was 'pre-decision'.

M Commesnil urged accountants to master statistical techniques, which for this purpose would not require more mathematical knowledge than they customarily possess. With regard to the more accepted functions performed by accountants, the writer specified three where statistical techniques could be usefully applied; in checking and recording a large quantity of data; in evolving standard costs; and in installing electronic equipment. The techniques themselves would enable accountants to travel far beyond these limits, however, and to assist management with advice based upon something more scientific than empirical observation and the examination of past events.

The September issue of the Bulletin of the Société de Comptabilité de France contains a long and closely-reasoned address on the same subject given by Monsieur Jean Nataf at the Salle des Ingenieurs Civils in Paris last April. M Nataf traced the origin of operational research as a technique to Britain, where the first groups of scientists started to use it in 1939, to deal with the problems posed by radar. By 1942, a total of 365 scientists were employed on such work in the Army alone, in addition to those of the other two services.

M Nataf claimed that operational research was a state of mind as well as a technique, and that the one led naturally to the other. After providing examples of its use outside the field of accounting, he dealt with the analysis of variables in such questions as: the maximization of profits, the estimation of depreciation; the valuation of stocks; and the apportionment of overheads.

The Zone Price System

In *Die Wirtschaftsprüfung* (Stuttgart) for October 15th, 1958, an article by Dr Karl-Heinz Forster describes the zone price system for evaluating an inventory, which is itself based upon statistical observations. The normal procedure when preparing an inventory of stocks is to multiply quantities by prices for each item individually. Where an extensive stock of many articles is kept, thousands of multiplications are necessary. This large number of multiplications can be reduced to a certain extent by adding together all articles of the same price, and multiplying the total quantity and the price. The total of such an inventory does not differ from the total of the individual values obtained by multiplying each item separately.

The zone price system goes one step further. It consists of a systematic 'rounding-off' of prices, upwards or downwards, in which the first task is to create certain 'steps', usually between fifty and 120 in number, according to definite principles. The quantities of all articles whose prices lie within each 'step' or zone are then added together, and multiplied by a previously determined price lying within the zone.

For example, when taking stock it is found that thirty-three articles, totalling 877 units of quantity, are to be priced at prices ranging from 3*s* 6*d* to 4*s* 3*d* per unit. The 'zone price' for this step was

previously determined at 4s per piece. Instead of multiplying the quantity of each article by the unit price, one calculation is made, viz: 877×4s = £175 8s.

The inventory value produced by this method will not be the same as that produced by evaluating the items individually, but where the price zones and zone prices are well chosen the overall difference will be small enough to be ignored.

The simplification afforded by this procedure is particularly useful to those businesses which are able to sort their stocks quantitatively into the chosen price zones, e.g. where punched cards are used. It can be applied to other businesses, however, even where no stock records are kept.

In order to increase the accuracy of the proceeding, it is possible to exclude all items where the unit price exceeds a certain figure. In any case, the determination of price zones requires a careful examination of the price and quantity structure of the stocks in a given business.

Capitalizing Advertising Expenditure

An article by Dr Gisela Hoffman in *Die Wirtschaftsprüfung* of November 1st last, deals with the legal and accounting rules governing capitalization of advertising expenditure in order to carry it forward from one accounting period to another. The writer perceives a trend in recent years towards capitalizing intangibles, and in the case of advertising expenditure this can take one of three forms. These are, to create a goodwill account by charging to it a part of this expenditure, to carry part of it forward as a payment in advance or suspense item, and to include part of the cost of printing, stationery and advertising equipment in the balance sheet. The last-named is essentially a different problem, however, and is subject to the rules governing inventories.

German legal decisions hold that advertising expenditure may not be capitalized by debit to a goodwill account except where exceptional one-time expenditure has been incurred, the effect of which has been to create a special goodwill value, such as might occur where a new periodical is launched.

German accounting literature regards advertising expenditure as a 'distribution cost' which can never be capitalized as goodwill because it is not 'expenditure on goodwill'. There is no more justification for capitalizing advertising expenditure in this way, than for capitalizing any other expenditure which may lead indirectly to an expansion of profitability.

The rule of caution which characterizes financial accounting precludes carrying forward advertising expenditure as a payment in advance, because it cannot be known with any degree of accuracy how much of the expenditure should be carried forward in the balance sheet.

Hire-purchase Trading in Belgium

The August/September issue of *La Revue Belge des Sciences Commerciales* (Brussels) contains interesting details of the regulations governing hire-purchase trading in Belgium. In order to engage in hire-purchase trading without being financed by some other organization, a Belgian business must be approved by the Minister of Economic Affairs. It must file with the Ministry full particulars of its number in the Register of Commerce and its legal constitution; it must undertake to keep proper accounts for producing the statistical data required by the Minister, to transmit such data to the Minister, to make its agreements available to the Ministry's inspectors, and to seek its finance only from other approved organizations.

The Minister's approval will only be given to businesses which can show net realizable assets of two million Belgian francs. Businesses which engage in hire-purchase trading financed by third parties are not required to obtain the Minister's approval, but must be registered on a special register kept by the Ministry.

Accountancy Training in Germany

Publication No. 55 of the Deutsche Industrie und Handelstag is a booklet on training for the professions of accountancy and tax advising in Germany and contains figures for apprentices and examination results for the year 1957. It is quoted by *Der Wirtschaftstreuhänder* (Stuttgart) of October 15th as stating that the number of apprentices employed in these professions, according to apprentice lists, was 7,985 in 1957 against 7,640 in 1956. Of these apprentices, 1,694 were male and 6,291 (78·5 per cent) female. There were 2,739 in the first year of training, 2,642 in the second and 2,585 in the third.

In 1957 a total of 2,468 apprentices in the accountancy and tax advisory professions sat for the 'Gehilfeprüfung' (qualified assistant's examination) of whom 554 male and 1,639 female apprentices passed: in all, 2,193 or 88·8 per cent.

It should be made clear that the examination in question is for qualified accountancy assistants and is not one through which is achieved the status of Wirtschaftsprufer – the German equivalent of a fully qualified Chartered accountant.

The Gentlemen Accomptants

by R. ROBERT, A.C.I.S.

GLANCING at the illustrations of old books on commerce, one is impressed by the scholarly atmosphere which enveloped the best counting-houses of two or three hundred years ago. Principals and their clerks are depicted in the flowing robes of Roman senators or, alternatively, in ultra-business-like stances, with quills industriously applied to the parchment pages. Looking at these old engravings and woodcuts, it would appear that even then 'accomptants' as they were called, enjoyed a superior status in society – together with some perquisites and privileges.

So much, perhaps, may be deduced from their style of dress, their cambric ruffs and top-hats, their offices, vellum-bound books, money-bags and measuring devices – all clearly and indelibly portrayed. Less easily ascertained are the methods they worked by, the specific conditions of their employment, and the training they received. Dealing with the last point first, it seems that in sixteenth- and seventeenth-century England the only sure means of acquiring book-keeping and accountancy knowledge was by working for the Crown, or for a merchant with a voluminous trade or by going abroad. Young men were sent to Spain, Italy, and the Netherlands to become familiar with the latest techniques of commerce, as well as of account-keeping.

Early Textbooks

Textbooks at that time were few, though it is well to remember that the first *Profitable Treatise* on double-entry book-keeping appeared in this country as far back as 1543 – in Tudor days. Hugh Oldcastle's work, based on Pacioli's historic *Summa de Arithmetica*, was produced by one of the earliest printers. Probably it sold well, and the edition was quickly exhausted, but one doubts whether its worth was widely recognized. No revolution occurred, and the old, haphazard methods continued in use.

By the following century, matters had somewhat improved, and a book entitled *The Merchaunt's Mirror*, by Richard Dafforne, ran into several editions. We may assume, therefore, that the Italian 'three-book system' of accounting, with double-entry, was gaining ground. Roger North's *The Gentleman Accomptant*, an 'Essay to Unfold the Mystery of Accounts', was published in 1714, a short, readable primer which avoided long strings of rules. North seems to have favoured a definitely 'high-hat' approach to his subject. Book-keeping, according to him, was a somewhat esoteric art, which required the 'solitude of a compting house', where the 'right ordering of debit and credit' could be considered in Olympian calm, free from interruptions, loud noises, and other wordly distractions! A journal entry, unless of the most simple kind, was something to be pondered deeply – like a move on the chess-board.

Working Conditions

From the seventeenth century onwards, at least some information is available on the subject of working conditions. That august institution, the Bank of England, employed a number of accountants in the far-off days of 1694, when it began operations. First of a long line of 'Chief Accomptants' was one Thomas Mercer, who received £200 per annum and had two assistants, paid half that sum, to keep the books and records. Many of the early staff found the duties onerous; others were frankly incompetent and soon left.

The accomptants, with the tellers and cashiers, made a timely start at 7 a.m., and continued, without recognized break, until 5 p.m., and the bank, at that period, was open for six days out of seven! However, by way of compensation for the long hours, there were about forty paid holidays a year. Discipline appears to have been easy, and faithful service did not go unrecognized. There were increments and, at the end, reward in the form of a pension. Everything considered, a job in the chief accomptant's department of the Bank was considered eminently suitable for a gentleman's son. Favouritism and influence played their part in securing clerkships, but in the long run it was competence and skill that won the day.

At about the same time, in the offices of the East India Company, similar conditions prevailed. To find a niche behind the portals of East India House in Leadenhall Street was the ambition of many a well-educated young man seeking a commercial career. The court of directors, fully aware of the fact, was 'choosey',

and insisted that successful candidates should serve a two-year apprenticeship – during which time they received no salary. Once established however, they had security of tenure and the prospect of advancement – always provided they were industrious and kept to the straight and narrow path.

These gentlemen of Leadenhall Street spent their working lives in draughty, candle-lit offices, and not a little of their time was taken up in cutting quills and in dusting sand over the pages of their ponderous ledgers. Some were capable men: skilled, efficient, exact. Others were the reverse. But for generations they kept the financial records of this, the greatest of all the old-time trading companies, in good, presentable order.

Pious Sentences

A curious custom of the accountants of former days was the writing of formal dedications and appeals to the Deity into the opening pages of their account books. Charles Lamb speaks in his essay, *The South Sea House*, of books with 'old fantastic flourishes, and decorative rubric lacings', and 'pious sentences at the beginning without which our religious ancestors never ventured to open a book of business or a bill of lading'. One of the greatest merchants of the sixteenth century, Sir Thomas Gresham, started off his journal in the following way:

> 'In the name of God, Amen. This present book shall be called the Journal . . . and I will write therein . . . with my own hand . . . all my doings . . . and from the said Journal to enter them into the Great Ledger'

and concluded:

> 'Pleaseth God to give me profit and prosperity, and to defend me from all evil fortune, loss or damage. Amen.'

Simon Stevin, of Bruges, born in 1548, was the iconoclast who first ventured to dispense with these prefaces, possibly with the object of saving precious time in the counting-house. Somewhere in the seventeenth century the accountants of England followed his example, and the old picturesque appeals to the Almighty to bless business transactions were dropped.

Biographies of prominent promoters, governors, and directors of chartered companies, such as the Bank of England, the East India Company, and the Hudson's Bay Company, are scattered through all the dictionaries. For details of the early accountants we have to search in more remote places. What manner of men the South Sea Company – of notorious and immortal memory – employed is vouched for by Lamb, an indifferent accountant but a dedicated man of literature. They were, he tells us, mostly bachelors. The establishment did not admit of 'superfluous salaries', and they were odd fishes, 'members of a lay monastery', the domestic retainers in a great house, and 'kept on more for show than use – but pleasant fellows and full of chat'.

An Unusual Character

One name stands out among these South Sea accountants: that of a Mr John Tipp, an altogether unusual character. Unlike so many of his colleagues at the office, he made no pretentions to high social connections, or aristocratic blood. Caring little about such things, he yet indulged an inordinate professional pride. John Tipp's credo was a simple one: he held that there was no finer occupation in the world than that of accountancy, and coupled to this was a firm conviction that in his person was to be found the world's greatest accountant! The company allowed him the use of a fine suite of rooms in Threadneedle Street, and he held fortnightly musical concerts there. Fond of good company, cold mutton and punch, modest John would, on occasions, himself render a violin solo. But, as the essayist has recorded, when at the desk Tipp was an altogether different being; conviviality, politics – even music – were forgotten, and he concentrated grimly on the 'writing of dividend warrants', or whatever task might be in hand. We may safely infer that the South Sea Company's books were kept by double-entry from the statement that 'the striking of the annual balance' occupied the accomptant's days and nights for a month previous. Only when the 'last fractional farthing' had been accounted for was his mind able to relax again.

Martinet though he was in the counting-house at balancing time, John Tipp of the South Sea Company appears to have been well liked. As a result of his popularity, and by virtue of his office, he was 'plagued with incessant executorships', all of which he discharged with the most scrupulous honesty. Never, declares Lamb, whether for lucre or intimidation, did he let down a friend or turn a blind eye to principles. From the context of the essay it is plain that John Tipp had his code of professional ethics and was the possessor of all the virtues which one could reasonably expect to find in an accountant and a gentleman of the eighteenth century – or indeed, of any century.

ments normally made direct to finance houses or through the banking system; payments to traders who have supplied the goods would not be covered.

Weekly Notes

American Institute Affairs

THE American Institute of Certified Public Accountants, to judge by its annual report and accounts for 1958, is in a sound state both financially and intellectually. The surplus of income over expenditure for the year (to August 31st), after debiting a far-seeing item of $15,000 described as 'Reserved for 1962 International Congress of Accountants', was $74,834. Both amounts were added to the general fund balance, thus raising the total from $667,787 to $757,621.

The intellectual healthiness of the Institute is apparent from the stimulating report of its many activities during the year. These include the creation of a technical services department to provide staff assistance for the Institute's many committees, a survey on price-level adjustment of depreciation, the maintenance of a watch on all Congress legislation of importance to the profession and the business community and the publication of an impressive array of professional literature.

The President of the Institute, Mr Alvin R. Jennings, in a message to members accompanying the report and accounts, stressed the need for a policy of continuing education after qualification – what in this country would be called post-graduation courses. At its spring meeting this year, the Institute appropriated $50,000 to start a programme of training for staff accountants in smaller firms and professional courses for practising certified public accountants generally. It is thought that a further $100,000 may have to be sought adequately to launch the scheme which, it is hoped, will become self-supporting by charging tutorial fees on an economic basis.

Tax Relief for Hire-purchase Charges?

AT the recent half-yearly general meeting of the Industrial Bankers Association it was reported that the Association has made representations to the Chancellor of the Exchequer concerning the possibility of introducing legislation to grant relief from income tax in respect of charges made by finance companies under hire-purchase and credit sale agreements. At present no relief is obtainable unless the goods in question are being used for business purposes. These representations are said to be under consideration.

A scheme is being prepared with the object of making it possible for hire-purchase payments to be tendered at sub-post offices. The National Federation of Sub-postmasters is said to have indicated its approval of the scheme. It would apply to payments normally made direct to finance houses or through the banking system; payments to traders who have supplied the goods would not be covered.

Balancing Charge is not Income

THE House of Lords, by a majority of three to two, has upheld the Court of Appeal decision[1] in *Commissioners of Inland Revenue v. Wood Brothers (Birkenhead) Ltd* (*The Times*, December 19th). This decision was to the effect that a balancing charge in the sum of £18,675 made on the company was not part of the company's 'actual income from all sources' within the meaning of Section 245 of the Income Tax Act, 1952 (which deals with surtax directions on companies). Accordingly, it could not be apportioned among the members for the purpose of charging surtax on it. Perhaps this decision will be followed by some legislation on the point next April.

Prison for Tax Fraud

AFTER an eight-day trial at the Manchester Crown Court, Rothwell Bamber, aged 47, chartered accountant, of Freckleton Street, Lytham St Anne's, was sentenced to twelve months' imprisonment for sending to the Inland Revenue a false statement of the income, from 1944 to 1951, of Eric Sandifird Ashton, aged 45, of Clifton Drive South, St Anne's, Blackpool, managing director of Knowlson Ltd, confectioners, of Marton, Blackpool. Bamber was also convicted of sending a false statement to the Inland Revenue in 1949, and falsifying Knowlson Ltd's profits between 1943 and 1949.

Ashton was sentenced to two years' imprisonment after admitting seven charges of falsifying the company's profits and eight of sending in false returns of his own income. He was also ordered to pay the prosecution's costs. Counsel for the prosecution told the Court that some £16,000 in income tax and excess profits tax would probably be recovered by the Inland Revenue.

Irish Tax Reform

THE Association of Chambers of Commerce in Ireland and the Federated Union of Employers have submitted a memorandum of evidence to the Commission on Income Taxation in the Republic of Ireland. Prepared by Mr F. G. Hall, PH.D., F.C.A., the memorandum puts forward many arguments which are similar to those heard in this country.

A plea is made for alterations in profit computations, both to allow for inflationary tendencies and to liberalize the official attitude towards expenses. Loss-forward relief is still limited to the following six years; the memorandum advocates the abolition of the time limit, and the introduction of relief carried backwards. Schedule A, it is suggested, is not worth retaining as a separate schedule; rents could be assessed under Case III of Schedule D, and owner-occupiers entirely relieved. The memo-

[1] See *The Accountant*, May 3rd, 1958, at page 522.

randum would welcome the introduction of relief for retirement provision by the self-employed, but does not advocate the adoption of the British P.A.Y.E. system which it considers to be too complicated and burdensome for employers. The need for codification is more pressing in Ireland, where they still have the 1918 Act, than it is here. A complaint is made that the Revenue Commissioners apply those British judicial tax decisions which are in the Revenue's favour, but not those which go the other way. It is suggested that the Revenue Commissioners be assisted by an advisory committee drawn from commerce and accountancy.

Coffee Stall as a Charity

IT has been held in the High Court that a canteen in Hereford Market qualifies for income tax relief as a charity (*Trustees of the Dean Leigh Temperance Canteen v. Commissioners of Inland Revenue, The Times*, December 18th). Giving judgment, Mr Justice Harman said that the trustees of the canteen had applied for income tax exemption in respect of income from investments and the profits from the canteen. The canteen was carried on largely with voluntary help and therefore made large profits, part of which were invested. It was first begun in 1917 but was now governed by a trust deed executed in 1930. The recitals to the deed did not mention any charitable intention except by the use of the expression 'Dean Leigh Temperance Canteen'. The operative part of the deed, however, showed that the intention was to promote temperance, which the Crown conceded was a charitable purpose. His lordship thought that on the whole the Trustees had proved their case. He made an order reversing the decision of the Special Commissioners.

Friendly Societies General Report

PART 1 of the report of the Chief Registrar of Friendly Societies for the year 1957 has now been published[1]. This part deals with general matters not covered by any of the other four parts of the Chief Registrar's annual report which deal with friendly societies proper, industrial and provident societies, trade unions, and building societies.

A statistical summary in the report shows that there was a further slight fall in the number of bodies registered or rendering returns to the department (22,785 or 351 fewer than at the end of the previous year), largely as a result of amalgamations or transfers to other societies; and also a small decline of total membership (from 155,195,000 to 155,020,000) but there was a further rise in the total funds – by £275 million to £4,905 million. Of course, the individual membership includes a good deal of overlap: one individual may be a member of several different societies. The total funds controlled by these societies are very impressive.

During 1957, 121 names were added to the list of approved auditors holding general appointments. Twenty-eight died during the year and thirty-nine resigned. Twenty-nine others were removed from the list, seven for failure to send a return of audits, nineteen because no audits had been carried out for several years, two because they had ceased to hold professional qualifications, and one because he had ceased to be in full-time practice.

The report sets out some cases decided by the Registrar and regarded as being of general interest or involving special points of law. One deals with a case where a husband, wishing to invest £1,000 was advised by the manager of a trustee savings bank to put £500 in his own account and £500 in his wife's, in order to obtain the maximum income tax concession. It was held contrary to the husband's submission that the £500 was paid into his wife's account by way of advancement, and therefore belonged to her. In another case, the personal representatives of a deceased holder of a Post Office Savings Bank account claimed that a nomination made by the deceased in favour of the Chancellor of the Exchequer was void in that the deceased was *non compos mentis* at the time. No evidence was given of the mental incapacity (perhaps it was thought that the nomination itself was enough) so the claim was rejected.

[1] H.M.S.O. 3s net.

Developments in Investment Policy

IN a paper entitled 'Developments in investment policy during the last decade', given at a meeting of the Institute of Actuaries last week, Mr J. G. Day traced recent changes in ideas on investment policy for life offices and pension funds. He stressed the need to select assets suitable to the particular liabilities, linking the risks that could be taken to the free reserves available. If necessary, life office liabilities could be exactly matched by gilt-edged investments to give complete security, although a more adventurous policy would normally be pursued; indeed, he thought that with-profit policy-holders looked for the results of investment in equities to be reflected in the bonuses on their policies. For pension funds, where the greatest risk was that inflation would create a need for higher pensions, Mr Day thought that equities should be the basic form of investment. His paper included an analysis of the investments available, particularly gilt-edged and equities, and their suitability for the needs of investment policy.

Mias (Holdings) Ltd Winding-up

MR Justice Vaisey on December 15th ordered the winding-up of Mias (Holdings) Ltd of Farringdon Road, London, EC. The order was made on the company's own petition; there were supporting creditors but no opposition. The supporting creditors included two judgment creditors for £531 and depositors for £350.

Reviews

American Investment in British Manufacturing Industry

by Dr J. H. DUNNING, PH.D. (George Allen & Unwin Ltd, London. 35s net.)

According to the author, this is the first comprehensive study to be made of the scope of American corporate investment in British manufacturing industry. Beginning with the formative period between 1870 and 1914, when the United States had already established supremacy in production in some industries and wished to build up export markets and establish branches overseas, Dr Dunning goes on to trace the reasons for the increasing flow of investment thereafter. He points, first, to an insufficiency of domestic savings after the First World War, coupled with the United States new role of a major overseas lender; later, changes in tariff policy induced more American firms to 'set up shop' in this country, while in the post-war period changing economic circumstances markedly affected the flow of capital to Britain. Not only was the dollar shortage and threatened loss of sales by United States firms a very persuasive influence, but a voracious demand for all types of American designed and styled goods was much in evidence.

As a result, United States firms have acquired a considerable stake in British industry. Total business investment is now thought to exceed $1,200 million and is increasing at the rate of about 10 per cent per annum, mainly through the ploughing back of profits. More than 300 subsidiaries of American corporations or concerns jointly financed by Anglo-American interests are in operation in Britain, providing employment for close on 350,000 people and producing a wide range of capital and consumer goods. In the main, investment seems to have been centred upon the chemical and petroleum industries, engineering and shipbuilding and vehicle production – all of them industries with a very definite export potential of their own.

How to Increase Office Productivity

by EARL P. STRONG. (College of Production Technology, Great Chart, near Ashford, Kent. 27s 5d net, postage 11d extra.)

Office Administration

by GEOFFREY MILLS, A.C.I.S., M.B.I.M., F.O.M.A., and OLIVER STANDINGFORD, F.B.I.M., F.O.M.A. (Sir Isaac Pitman & Sons Ltd, London. 25s net.)

Both these books have the same objective – to define effective office management and to lay down a programme for carrying it out. Professor Strong begins with a chapter on the proposed plan of campaign and then follows it up with six chapters each dealing with a specific step in the process. The first of these explains the importance of making job analyses of all clerical and supervisory positions. The second deals with the task of determining and setting performance standards for all work undertaken. Next come chapters on how job work methods and procedures may be improved and on the training of office staff. The fifth chapter covers the establishment and application of work incentives and the sixth and final chapter considers how supervision at all levels may be strengthened. An appendix provides sample job analyses, drills for the development of skill and supervisor rating charts to illustrate the text.

The other book, despite careful editing, is more diffuse partly because of the number (about ten) of its contributors. It is divided into five separate sections, the first being a general survey of office organization, the next three being concerned with control, staffing and supervision and the fifth with specialist techniques to be applied in planning the work of a modern office.

Professor Strong approaches the problems from the American, and the contributors to the symposium of Messrs Mills and Standingford from the British viewpoints, but there is no radical disagreement in their philosophies which are that the essentials of smooth and efficient office administration are a streamlined system, first-rate supervision, intelligent delegation and honest individual effort on the part of every member of the staff. Both works should be read by all executives who aspire to these ideals but who are conscious of shortcomings in their own organizations.

Principles and Practice of Commerce

by JAMES STEPHENSON, M.A., revised by H. O. BEECHENO, B.COM. *Fifth Edition.* (Sir Isaac Pitman & Sons Ltd, London. 30s net.)

The demand for a fifth edition of this work indicates that it is playing a useful part in the instruction of students; particularly welcome is the decision to keep it within a reasonable compass by discarding the more historical and economic matters in favour of a concise survey of modern commercial practice. The numerous tables and diagrams form most useful adjuncts to the text, although in some cases they are marred by the use of clumsy type. The author's warning in the preface as to the continual change of so many of the matters dealt with, could profitably be repeated at appropriate points in the text and exact dates placed against some of the figures quoted – the mere year (as with National Insurance rates) is not, alas, always sufficient.

Mention of a few of the good features must suffice. Thus, in the brief five pages on 'The Modern Office' the student is given a concise description of standard costing, budgetary control, management ratios and mechanized accounting, while the section

on 'Exchange, Banking and Finance' is, perhaps, the best in the book, of which it forms nearly a quarter. The table on page 454, however, will mislead the student in one small point: directors do usually hold qualification shares but, unless the articles so provide, they are not obliged to do so.

It is a pity that Chapter 55 on 'Turnover' hardly does justice to this important subject, as it adds little to what had been concisely said earlier in the book, and in particular the short paragraph on 'Statistics' is quite unworthy of that subject. The last section, however, devoted to 'Commerce and the State', gives a clear summary of the complex nature of this important relationship, the chapter on 'Local Government Authorities' being particularly useful.

Altogether, this book is a marvel of condensation, sometimes, perhaps, dangerously so, but for the Intermediate student, for whom it is primarily intended, it should prove a most helpful introduction, and whet his appetite for the more detailed treatment to be found in other works which cover specific aspects of commerce.

Business Enterprise

by Ronald S. Edwards and Harry Townsend. (Macmillan & Co Ltd, London. 60s net.)

An undergraduate studying economics straight from school all too often finds himself confronted with an elegant formal system. But if theory is not well founded on fact, he may discover to his dismay, when he comes into contact with the real world later on, that the formal system and models on which he has trained bear little or no resemblance to the practical issues which he is called upon to unravel.

In recognition of this perplexing situation the authors have sought to bridge the gap between economic theory and economic fact by analysing the forces at work in industry and thereby illustrating not only their complexity but the relationships between them.

The resulting material – copious in itself – has been suitably arranged under four groups of topics. Part One describes the birthpangs of various business firms and their subsequent growth which focuses attention upon the extraordinary variety of organizations which constitute the industrial system. Part Two is concerned with the factors determining the size, location and specialization of firms; while Part Three deals with the relationship between the Government and industry. The very nature of the discussion causes this latter part to be rather more polemical in character than the earlier parts. Nevertheless it is a useful insight into those matters upon which Ministers and Civil Servants have to take action and on which members of the public, too, have to make up their own minds. Part Four concentrates on the future by considering the problems involved in finding the resources, providing the incentives and organizing the framework for progress in industry. Here, as the authors are at pains to point out, in the absence of much more detailed information, far too little is known as yet to support clear findings or wide generalizations about industrial organization.

Despite its limitations and simplifications, economic analysis is a valuable tool for the study of business activity. The pity is that such a high proportion of the ablest minds among economists have tended to by-pass empirical research in favour of its theoretical counterpart. Yet economic theories are sterile unless they are constantly tested and modified in the light of actual experience. From this point of view, the authors have more than succeeded in their aim of introducing us to the *milieu* of practical business affairs.

RECENT PUBLICATIONS

Smith's Taxation, sixty-second edition, by A. E. Bevan. 342 pp. 8½ × 5½. 14s post free. The Advertiser Press Ltd, Page Street, Huddersfield.

The Malta Directory & Trade Index, 1958–59, third annual edition. 416 pp. 10 × 7½. 25s 6d. Malta Publicity Services Ltd, 157 Merchants Street, Valletta.

Factories and Plant, by William Hornby. History of the Second World War, United Kingdom Civil Series. xiii + 421 pp. 10 × 6. 37s 6d net. H.M.S.O., London.

Controls on Company Finance, by B. J. Sims, ll.b. xvi + 144 pp. 9 × 5½. 25s net (U.K. only). Sweet & Maxwell Ltd, London.

'Taxation' Manual, ninth edition, compiled by barristers and experts under the direction of Percy F. Hughes. xxviii + 455 pp. 9 × 5½. 25s net. Taxation Publishing Co Ltd, 98 Park Street, London, W1.

The 1958 Income Tax Legislation, Being a supplement to 'Silke on South African Income Tax', by A. S. Silke, m.com.(hons.)(cape town), c.a.(s.a.). 176 pp. 10 × 6. 40s net. Juta & Co Ltd, Cape Town.

The Hospitals Year Book 1959, edited by J. F. Milne, m.c., b.sc.(econ.). 1,128 pp. 10 × 6. 57s 6d net (postage 2s extra). The Institute of Hospital Administrators, 75 Portland Place, London, W1.

Club Accounts, second edition, by C. J. G. Lewis, b.a., ll.b. 64 pp. 9 × 6. 7s 6d net. Jordan & Sons Ltd, London.

Reminders for Club Secretaries and Treasurers, second edition, by C. J. G. Lewis, b.a., ll.b. 71 pp. 9 × 6. 7s 6d net. Jordan & Sons Ltd, London.

Outlines of Industrial Law, third edition, by W. Mansfield Cooper, ll.m., Barrister-at-Law, and John C. Wood, ll.m., Barrister-at-Law. lxvi + 413 + 21 pp. 9 × 6. 35s net. (postage 2s extra). Butterworth & Co (Publishers) Ltd, London.

The Taxation of Gifts and Settlements Including Pension Provisions by Stamp Duty, Estate Duty, Income Tax and Surtax, third edition, by G. S. A. Wheatcroft, j.p., m.a.(oxon.). xxxviii + 249 pp. 10 × 6½. 52s net. Sir Isaac Pitman & Sons Ltd, London.

Years' Purchase Card. 5½ × 4. 1s 6d net (postage 3d extra). The Estates Gazette Ltd, 47 Museum Street, London, WC1.

The Liability to Tax of Non-Resident Companies, A Comparative Study in Fiscal Law, by J. H. Th. Schipper, Doctor at Law (Amsterdam). xx + 225 pp. 9½ × 6½. Guilders 16.50. Martinus Nijhoff – POB 269 – The Hague, Netherlands.

The Economic Theory of Fiscal Policy, by Bent Hansen translated by P. E. Burke, b.sc.(econ.), f.r.econ.s. xv + 450 pp. 9 × 5½. 45s net. George Allen & Unwin Ltd, London.

Effects of Mergers, Six Studies, by P. Lesley Cook and Ruth Cohen. 458 pp. 9 × 6. 42s net. Cambridge Studies in Industry. George Allen & Unwin Ltd, London.

Finance and Commerce

New Form

'CONSCIOUS of the need to present you with clear and comprehensive information about your company, we have overhauled our published accounts and now present them to you prepared on the most modern lines. I hope you obtain pleasure and profit from their examination,' says Mr Frank Woodhead, chairman of Toledo Woodhead Springs Ltd, in his statement with the accounts of the company to August 31st, 1958, which are the subject of this week's reprint.

The new form bears a close resemblance to that used by The United Steel Companies Ltd whose accounts have been widely approved. No doubt it is merely a coincidence that both companies are in Sheffield although the registered office of Toledo is actually in Co. Durham. At all events, it is satisfactory to note that the new Toledo form is on sound lines.

Toledo has long been connected with vehicle leaf springs and it so happened that a plant was established, at the requirement of the Ministry of Supply, to make coil springs for tanks. The plant was acquired from the Ministry after the war and became a valuable asset when car manufacturers moved on from leaf springs to independent front wheel coil suspension. The company was also the sole manufacturer in the war of the wheel device that enabled military vehicles to run on deflated tyres over loose sand and shingle.

O.T.C. Relief

MR S. G. GLIKSTEN, chairman of J. Gliksten & Son Ltd, whose interests in wood and timber start with the tree itself, reports that while the company expects to benefit from overseas trade corporation status, the position has not yet been finalized and the taxation provision, £385,952 against £364,092, has been made on the old basis.

All necessary steps have been taken in consultation with the company's advisers, to ensure that three of the subsidiaries will obtain O.T.C. relief. As final acceptance of the position has not yet been agreed with the Inland Revenue, the full amount of tax due on the year's profits, if O.T.C. status is not recognized, has been reserved. The position should be clarified by the time the next accounts come round and this, says the chairman, may result in a sub-

TOLEDO WOODHEAD SPRINGS LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st AUGUST 1958

PROFIT AND LOSS ACCOUNT

1957 £	£			£	1958 £
96,918		I	EXCESS OF INCOME OVER EXPENDITURE		99,301
			Add		
1,115		II	INTEREST ON INVESTMENTS AND DEPOSITS		1,199
98,033					100,500
			Deduct		
	4,597	III	DIRECTOR'S COMPENSATION FOR LOSS OF OFFICE	1,500	
56,527	51,930	IV	TAXATION	54,552	56,052
41,506			CONSOLIDATED SURPLUS AFTER TAXATION		44,448
1,582	(*retained*)	V	NET PROFIT RELEASED BY SUBSIDIARY COMPANIES		1,926
39,924			NET PROFIT OF THE PARENT COMPANY		46,374
			APPROPRIATION		
48,830			BALANCE AT 31st AUGUST 1957 BROUGHT FORWARD		47,906
88,754					94,280
			Deduct		
	25,000	VI	TRANSFER TO GENERAL RESERVE	25,000	
40,848	15,848	VII	DIVIDENDS PAID OR RECOMMENDED *less* TAX	18,077	43,077
47,906			BALANCE CARRIED FORWARD		51,203

EXPLANATORY NOTES

		1958 £	1957 £	
	BALANCE BROUGHT FROM TRADING ACCOUNTS	118,624	109,543	
	Deduct Depreciation	19,323	12,625	
I	EXCESS OF INCOME OVER EXPENDITURE after charging the following	99,301	96,918	
	Emoluments of Directors of the Parent Company (including contributions to the Pension Fund)			
	Fees as Directors	200	200	
	Remuneration of Executive Directors	19,735	20,286	
		19,935	20,486	
IV	TAXATION BASED ON THE PROFIT OF THE YEAR			
	Income Tax	45,375	42,263	
	Profits Tax	11,625	10,407	
			52,670	
	Add: Transfer to amount set aside for the equalisation of taxation	600	740	(*less*)
		57,600	51,930	
	Less: PROVISION FOR TAXATION NO LONGER REQUIRED	3,048	—	
		54,552	51,930	
V	NET PROFIT RELEASED BY SUBSIDIARY COMPANIES Surplus funds in excess of this year's profit and not required by one Subsidiary Company, were transferred by the payment of a dividend.			
VII	DIVIDENDS PAID OR RECOMMENDED			
	Interim Dividend at 7½% *less* tax	7,747	6,792	(7½%)
	Final Dividend at 10% *less* tax	10,330	9,056	(10%)
		18,077	15,848	

stantial reduction in next year's tax charge with an adjustment for over-provision.

While this cautious approach has been made, certain of the subsidiaries, however, in order to benefit from O.T.C. tax concessions, have declared dividends in excess of earnings during the year, calling upon reserves to do so. As a result, there are more profits available in the parent company than the group earned and a substantially higher transfer (£150,000) is being made to general reserve and the carry forward increased.

Goodwill

SOME of the multi-millions that provide the nation's daily bread are shown in the accounts of Allied Bakeries Ltd. The consolidated balance sheet at March 29th last shows £19,731,000 in capital, reserves and surplus – this being one of those companies that approximates in its published accounts to thousands.

The position has been built up very much by the acquisition of existing businesses and there is an interesting aspect of this in the directors' report. The addition of new subsidiaries and the development of existing subsidiaries, the report states, has involved expenditure of £986,000 on goodwill during the year. In the group, that amount has been provided by appropriations out of profits to capital reserves so that no amount of goodwill is shown in the balance sheet.

Since the company's formation, £9½ million has been expended on goodwill. Profits and reserves have been used to eliminate the whole of this amount, and there remains in the group, capital and revenue reserves totalling £11,525,000, of which £9,528,000 appears in the company's own balance sheet.

Next Week's Reprint

The reprint in next week's issue will be from the accounts of The City of London Building Society.

CITY NOTES

NEW Year stock-market prospects are now being discussed against the background of an industrial equity market which keeps obstinately firm. Despite the sharpness of the 1958 rise in equities there is as yet no obvious tendency towards profit-taking in any of the 'consumer' shares that have made the market runing in the past six months or so.

Yields of between 3 and 4 per cent do not deter fresh buyers to whom the prospect of capital appreciation is more attractive than income return.

It is possible, however, that the equity accent may tend to switch from consumer to capital shares as the credit measures taken since last August begin to have their effect on the heavy industries where

TOLEDO WOODHEAD SPRINGS LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT 31st AUGUST 1958

1957 £			1958 £
		CAPITAL EMPLOYED	
157,500	I	ISSUED CAPITAL OF TOLEDO WOODHEAD SPRINGS LIMITED	179,651
196,709	II	RESERVES	248,026
44,763	III	FUTURE TAXATION	46,265
398,972			473,942
		EMPLOYMENT OF CAPITAL	
	IV	CURRENT ASSETS	
228,403		Stocks as valued by the Directors	201,928
73,325		Debtors and prepayments, *less* provisions	109,394
—		Deposits with local authority	40,000
92,314		Cash and bank balances	77,657
394,042			428,979
	V	CURRENT LIABILITIES	
64,917		Creditors and accrued charges	89,493
60,712		Taxation including income tax due on 1st January, 1959	56,078
9,056		Proposed final dividend *less* income tax	10,330
134,685			155,901
259,357		CURRENT ASSETS *less* CURRENT LIABILITIES	273,078
139,615	VI	FIXED ASSETS	200,864
398,972			473,942

FRANK WOODHEAD
H. SPITTLEHOUSE } Directors

EXPLANATORY NOTES

I Details of Share Capital are given in Schedule A.

II Details of Reserves are given in Schedule B.

		1958 £	1957 £
III	FUTURE TAXATION		
	Income tax due on 1st January, 1960	42,365	41,463
	Amount set aside for the equalisation of taxation being relief in respect of capital expenditure	3,900	3,300
		46,265	44,763
VI	Details of Fixed Assets		
	Per Schedule C	180,350	139,615
	Goodwill at cost	20,514	—
		200,864	139,615

ADDITIONAL NOTES

a The assets and liabilities of the Canadian Subsidiary have been converted for the purpose of consolidation at the rate of exchange ruling at 31st August, 1958.

		1958 £	1957 £
b	Capital commitments in respect of contracts for capital expenditure not provided for in the accounts are estimated to amount to	5,000	10,500

ere is at present a considerable measure of under-roduction. In some quarters it is put at 20 per cent capacity.

Because this capacity gap can be made good and roduction increased without new capital investment e inflationary aspect of re-expansion can be kept bay to a reasonable degree.

Stock-market optimism often means the turning blind eyes on 'bear' points among which the most ifficult to discount is the political factor. A general ection is distinctly probable in 1959 and must bring ith it a degree of political uncertainty and an invest-ent tendency towards a greater degree of liquidity. Wall Street's feverish rise against the background Washington's concern at a heavy Budget deficit id a severe gold outflow is also a point of potential eakness. If the United States Treasury takes strong ti-inflationary action in the New Year, Wall reet's consequent set-back could have repercussions the London market even though the speculative sition here is within reasonable bounds.

RATES AND PRICES

Closing prices, Monday, December 22nd, 1958

Bank Rate

b. 16, 1956	5½%	May 22, 1958	5½%
b. 7, 1957	5%	June 19, 1958	5%
pt. 19, 1957	7%	Aug. 14, 1958	4½%
ır. 20, 1958	6%	Nov. 20, 1958	4%

Treasury Bills

t. 17	£3 12s 3·08d%	Nov. 21	£3 8s 4·68d%
t. 24	£3 13s 7·94d%	Nov. 28	£3 6s 1·20d%
t. 31	£3 11s 8·23d%	Dec. 5	£3 4s 5·75d%
v. 7	£3 11s 7·04d%	Dec. 12	£3 2s 4·92d%
v. 14	£3 11s 0·97d%	Dec. 19	£3 3s 0·96d%

Money Rates

y to day	2¾–3⅛%	*Bank Bills*	
ays	3–3⅛%	2 months	3¼–3 5/16%
e Trade Bills		3 months	3¼–3 5/16%
months	4¼–5%	4 months	3¼–3 5/16%
months	4¼–5%	6 months	3¼–3⅜%
months	4½–5¼%		

Foreign Exchanges

w York	2·80 7/16–9/16	Frankfurt	11·70⅛–⅜
ntreal	2·70 5/16–⅜	Milan	1745¼–¾
sterdam	10·58¾–⅞	Oslo	20·00⅛–¼
ıssels	139·28¼–28¾	Paris	1178⅝–¾
ɔenhagen	19·32¾–33	Zurich	12·18–¼

Gilt-edged

ısols 2½%	51xd	Funding 4% 60–90	90
ısols 4%	74⅜	Savings 2½% 64–67	83 7/16
r Loan 3½%	65 11/16	Savings 3% 55–65	90 15/16
ıversion 3½%	65 15/16	Savings 3% 60–70	80 1/16
ıversion 3½% 1969	87¾	Savings 3% 65–75	74½
hequer 5½% 1966	103 15/16	Treasury 2½%	49
ıding 3% 66–68	84⅛	Treasury 3½% 77–80	76¾
ıding 3% 59–69	82¾	Treasury 3½% 79–81	76 13/16
ıding 3½% 99–04	70¾xd	Victory 4%	96

TOLEDO WOODHEAD SPRINGS LIMITED

SCHEDULES TO THE BALANCE SHEETS AS AT 31st AUGUST 1958

SCHEDULE A
SHARE CAPITAL OF TOLEDO WOODHEAD SPRINGS LIMITED

	Authorised £	Issued £
1,000,000 shares of 4s. each, 898,255 issued	200,000	179,651
As at 31st August, 1957	*200,000*	*157,500*
Issued in October, 1957 as consideration for the acquisition of T.A.I.P. (Engineers) Limited		22,151

SCHEDULE B
CAPITAL RESERVE

	31st August 1958 COMPANY £	31st August 1958 GROUP £	*31st August 1957* COMPANY £	*31st August 1957* GROUP £
Share premium account—which together with the shares issued to the nominal value of £22,151 makes up to the purchase price of T.A.I.P. (Engineers) Limited	25,000	25,000	—	—
REVENUE RESERVES				
General	170,000	170,000	*145,000*	*145,000*
Undistributed profits of subsidiary companies	—	1,823	—	*3,803*
Profit and loss account of Parent Company	51,203	51,203	*47,906*	*47,906*
	221,203	223,026	*192,906*	*196,709*
TOTAL RESERVES	246,203	248,026	*192,906*	*196,709*

SCHEDULE C
FIXED ASSETS

	31st August 1958 GROSS BOOK VALUE £	DEPRE-CIATION £	NET BOOK VALUE £	*1957 NET BOOK VALUE £*
THE COMPANY'S BALANCE SHEET				
Freehold land and buildings	40,059	6,684	33,375	*34,000*
Plant, machinery and furnaces	177,830	82,484	95,346	*87,280*
Fixtures, fittings and office machinery	21,121	7,774	13,347	*12,200*
Motor vehicles	21,895	14,089	7,806	*3,684*
	260,905	111,031	149,874	*137,164*
Loose plant and tools			3,244	*2,450*
Patent rights at cost, *less* amount written off			1	*1*
			153,119	*139,615*
As at 31st August, 1957	*231,804*	*94,640*		
THE CONSOLIDATED BALANCE SHEET				
Freehold and Leasehold land and buildings	40,059	6,684	33,375	*34,000*
Plant, machinery and furnaces	202,751	85,252	117,499	*87,280*
Fixtures, fittings and office machinery	24,389	7,941	16,448	*12,200*
Motor vehicles	23,304	14,412	8,892	*3,684*
	290,503	114,289	176,214	*137,164*
Loose plant and tools			4,135	*2,450*
Patent rights at cost, *less* amount written off			1	*1*
			180,350	*139,615*
As at 31st August, 1957	*231,804*	*94,640*		

BASES OF VALUATION

1 Fixed assets of T.A.I.P. (Engineers) Limited, acquired during the year are as re-valued by professional valuers in the sum of £23,804.
2 Loose plant and tools are as valued by the Directors.
3 Otherwise all fixed assets are at cost *less* depreciation.

Current Law

Winding-up Petition: Name of Company Misspelt

AFTER an order had been made for the compulsory winding-up of a company the name of which was J. & P. Sussmann Ltd, it was discovered that the name of the company had been misspelt in the petition, the company being there referred to as J. & P. Sussman Ltd. In *Re J. & P. Sussman Ltd* ([1958] 1 All E.R. 857) the petitioner applied for leave for the name of the company as given in the petition to be amended and for such other amendments as might be necessary for confirmation of the order for winding-up.

Vaisey, J., held that, as the mistake was only a trifling error in spelling, by which, in the circumstances of the case, no one could possibly be misled, he had jurisdiction to make the order sought and it was not necessary for the petition to be re-advertised.

Closing of Suez Canal: Contract Frustrated

BY a written contract dated September 6th, 1956, Carapanayoti and Co Ltd, agreed to sell to E. T. Green Ltd, cotton seed cake for shipment from Port Sudan during October/November 1956 at seller's option c.i.f. Belfast. At that date the usual and customary route for the shipment of goods from Port Sudan to Belfast was via the Suez Canal. On November 2nd, 1956, the canal was closed to navigation and it was not reopened until April 9th, 1957: while it was closed the only route from Port Sudan to Belfast was via the Cape. The sellers did not ship the contract goods and the buyers sued them for breach of contract.

The dispute was referred to arbitration and the umpire decided in favour of the buyers. The sellers appealed to the Board of Appeal of the London Cattle Food Trade Association and appealed from the Board's award in the form of a special case. McNair, J., in *Carapanayoti & Co Ltd v. E. T. Green Ltd* ([1958] 3 All E.R. 115), allowed the appeal. His lordship said that it seemed to him in principle that where a contract expressly or by necessary implication provided that performance was to be carried out in a customary manner the performance must be carried out in a manner which was customary at the time when the performance was called for. Hence the sellers' obligation under a contract of the kind in question was not confined to shipping by a route which was usual and customary at the date of the contract, but was to ship by a route usual and customary at the time of performance. The continued availability of the Suez route was a fundamental assumption at the time when the contract was made; consequently, to impose on the sellers the obligation to ship by an emergency route via the Cape would be to impose upon them a fundamentally different obligation which neither party could, at the time when the contract was made, have dreamed that the sellers would be required to perform and, if the parties had thought of the matter at the time, both, as reasonable persons, would have accepted at once that, if the canal was closed for an indefinite period at a time when the sellers were not in breach for failure to ship earlier, the contract would be off. Justice and reason required that, in those circumstances, both parties should be relieved from their obligations on the happening of the closing of the canal without the default of either.

Voting on Poll

THE question at issue in *Holmes and Another v. Lord Keyes and Others* ([1958] 2 All E.R. 129) was whether the first and second defendants had vacated their offices as directors of the defendant company on failure to acquire their qualification shares within the requisite time, viz. within the two months allowed by Section 182 of the Companies Act, 1948, and Article 90 (*c*) of the articles of association of the company. The election of the first and second defendants was in each case by a poll on December 23rd, 1957, but the counting of the votes did not take place until the 24th. The defendants purchased their qualification shares but their names were not entered in the register of shareholders in respect thereof until February 24th, 1958.

The Court of Appeal, reversing the decision of Danckwerts, J. ([1958] 1 All E.R. 721), held that the period of two months was to be calculated from the date on which the result of the poll was announced and not the date on which it took place. Accordingly, the defendants' offices as directors were not vacated. Jenkins, L.J., expressed the view that the articles of a company should be regarded as a business document and should be so construed as to give them reasonable business efficacy where a construction tending to that result was admissible on the language of them in preference to a result which would or might prove unworkable. Unless the appointment began when the result of the poll was ascertained, and no earlier, it would be impossible for the company to know who its directors were, and it seemed contrary to principle to require a man to obtain qualification shares, on the footing that he had been elected as a director, at a time when it was not known whether or not the resolution appointing him had been carried. Construing an article which so far as material corresponded with Article 58 of Table 'A', their lordships held that a poll could validly be demanded before a show of hands was taken.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

P.A.Y.E. and National Insurance

SIR, – I am grateful to you for publishing my letter in your November 15th issue and it is pleasing to note that subsequent letters have indicated no opposition to the suggestion, even if the support is not overwhelming on the evidence of letters in your columns.

The matter is, I admit, not a major issue of finance, taxation or law and may not therefore be an obvious subject for the attention of the professional accounting bodies. However, apart from the Chambers of Commerce there are few organizations who are able to support a suggestion of this nature which would, in my opinion, be of great assistance to employers, and the support of the accountancy profession would be valuable. As the scheme for graded pensions is unlikely to commence for four to five years, there would appear to be plenty of time, but if a scheme to combine the deductions for P.A.Y.E. and National Insurance were to be introduced, there would be obvious advantages in introducing it in advance of the proposed changes in the National Insurance scheme so that the procedure can be established and perfected.

Yours faithfully,

Shirley, Croydon. B. M. GOSDEN.

B.U.P.A. Accountants' Groups

SIR, – As this Association has several groups for accountants, I think your readers would be interested to learn that, at the eleventh annual general meeting held recently in London, the chairman was able to report an increase of £500,000 in the subscription income for the year ended June 30th, making a total subscription income for that year of £2,616,000.

The experience of the Association continues to be remarkably good. Owing to the unusually low cost of administration, a satisfactory surplus has been achieved each year, although claims have absorbed, on an average, 85 per cent of subscription income. Last year, for the first time, the amount of benefits paid out in claims in a single year exceeded £2 million.

We are now extending our service in two new ways. First of all, the benefits are being widened so as to include, for a small additional subscription, grants towards the cost of private general practitioner treatment. This scheme had long been asked for by people who prefer to make their own arrangements and avoid the regimentation unavoidable in a State scheme.

Secondly, The British United Provident Association has sponsored the formation of the Nursing Homes Charitable Trust Ltd, with the object of promoting and preserving accommodation for private patients in nursing homes, to supplement the private beds available in hospitals. Interest-free loans have been made to certain nursing homes to enable them to improve and extend their buildings, and the trust has also purchased a nursing home in Bournemouth. This may prove to be the forerunner of a chain of trust nursing homes.

I shall be very glad to put any of your readers who would like to make provision against the cost of private hospital, nursing home, and surgical and medical treatment, in touch with the secretary of the appropriate accountants' group scheme. Members of a group scheme enjoy the Association's full benefits for a reduced rate of subscription.

Yours sincerely,

E. F. WEBB, *General Manager*,
THE BRITISH UNITED PROVIDENT
London, WC2. ASSOCIATION.

Simpler Multiplication

SIR, – I have read with interest Mr Hadrill's letter in your issue of November 29th.

His example is merely a 'dressing up' of the long and old-fashioned way of multiplying two numbers together, with all the possibility of error in carrying forward – a bugbear that we as accountants have been trained to guard against as much as possible.

I give credit to your correspondent for his speed in obtaining the multiple of his two numbers but I would like to know how long it would take him to multiply 1234 by 600 and by 33 and deduct the lesser from the greater, or to multiply 567 by 1,000, 200, 30 and 4.

I am afraid his teacher was somewhat lacking in mathematical genius, whereas more than sixty years ago my old schoolmaster taught or endeavoured to teach us head prefects and scholarship boys to develop and use our brains and to turn and twist numbers all ways in order to get the quickest result, always bearing in mind that they were merely made up of units, tens, hundreds, etc.

My old pedagogue and lifelong friend – an M.A. and M.Sc. and a brilliant footballer at that, who also taught us how to add up three columns of figures at the same time, had the quickest mathematical brain of any man I have ever met.

Yours faithfully,

RETIRED (1943)
BOROUGH TREASURER.

Fixed Assets: Treatment of Advance Payments

SIR, – I should appreciate your readers' views on the treatment in a company's balance sheet of advance and progress payments prior to delivery of plant which, on erection, will become fixed assets.

Yours faithfully,

SYGN.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

TAXATION AND RESEARCH COMMITTEE

Luncheon to Mark One-hundredth Meeting

To mark the occasion of the one-hundredth meeting of the Taxation and Research Committee of The Institute of Chartered Accountants in England and Wales, a luncheon was held in the Oak Hall at Moorgate Place, London, EC2, on December 18th, immediately preceding the meeting. Mr E. N. Macdonald, D.F.C., F.C.A., chairman of the Committee, presided, and those present included, in addition to the members of the Committee, Mr W. L. Barrows, LL.D., J.P., F.C.A., President of the Institute; Mr C. U. Peat, M.C., F.C.A., Vice-President of the Institute; and Sir Harold Barton, F.C.A., Mr T. Fleming Birch, F.C.A., Mr W. G. Campbell, B.A., F.C.A., Mr J. Clayton, A.C.A., Mr S. Dixon, M.A., A.C.A., Mr G. G. G. Goult, F.C.A., Mr G. S. Hamilton, A.C.A., and Mr G. F. Saunders, F.C.A., all past-chairmen of the Committee.

After the loyal toast the Chairman welcomed the President and the Vice-President of the Institute and past-chairmen of the Committee and said how much he regretted that Mr A. S. MacIver, the Secretary of the Institute, and Mr L. J. H. Noyes, the Secretary to the Taxation and Research Committee, could not be present on this occasion, for the worst of reasons, that of ill health. He called upon the President to propose the toast of 'The Taxation and Research Committee, past, present and future'.

Committee's Achievements

The President said that he had seen Mr MacIver that morning and could report that he was well and had heard that Mr Noyes had undergone an operation which was successful. He continued:

'This afternoon the Taxation and Research Committee is due to meet in the usual way in the Council Chamber. When it does so it will have achieved its one-hundredth meeting. It is, of course, by no means unknown for a batsman to be out at 99 and some of you may wonder whether this has anything to do with the presence of myself and some other strangers at this luncheon. Well, let me say at once that, unlike Mark Antony, I come to praise the Committee not to bury it.

'For me personally it is a most happy coincidence that the Committee's one-hundredth meeting should take place in my year of office as President of the Institute. I was not unconnected with the origins of the Committee and I had the honour to be one of its first members. It has achieved far more than any of us dared hope in those days, so that what I have to say today is a very real pleasure.

'Perhaps the most remarkable feature of the Committee is that it was born in 1942, which by no standards can be regarded as a year of optimism. Most of our thoughts were then concentrated on mere survival and there was little time or encouragement to plan for the future. Moreover, a good many wartime babies proved to be little horrors; consider for example the Finance Act, 1940. Historians may rightly wonder how in that dark period the Institute managed not merely to build for the future but to build so well. The establishment of the Taxation and Research Committee has enabled the Council to extend enormously the scope of its activities for the good of our profession and those who need the services we provide. It has also brought about a great welding of the two main branches of our membership – those in industry and those in public accountancy. A judicious mingling of the thoughts and experiences of members in both branches is vital to the work of the Committee and the future of the Institute. Some ten years ago the late Gilbert Shepherd told the Committee that he thought its membership should as far as possible be on a "fifty-fifty" basis. That is a goal which has proved elusive but the effort should be maintained. We all know that for various reasons it is often difficult or impossible for a member in industry and commerce to give the time he would wish to the work of the Committee and we must therefore be all the more appreciative of the efforts of those who do make a major contribution.

Over 1,000 Subcommittee Meetings

'Membership of the Committee is by no means an occasional hobby. It demands great sacrifice of time in attending meetings, studying the papers issued for them and not infrequently preparing written contributions. Meetings of the full committee provide an opportunity for all its members to express their views on the documents brought forward by subcommittees. The detail work, often extensive and difficult, is done by the subcommittees and perhaps some slight indication of the burden they carry is reflected in the number of meetings. Whereas the full committee today reaches its one-hundredth meeting in sixteen years, the number of subcommittee meetings now exceeds one thousand. The subcommittees make the runs and the full Committee takes the wickets.

'I suppose one can fairly say that the qualities required for membership of the Committee are the readiness and ability to give the time required, the possession of wide experience or special experience in a particular field, the readiness to recognize that others may hold different views from one's own and above all a *practical* approach without which it is useless to try to compile practical guidance.

'Broadly, the work of the Committee is of two kinds, one leading to the submission of documents by the Council to some other body and the other leading to

the issue of documents by the Council for the guidance of members. The latter are familiar enough. They include the Recommendations on Accounting Principles and the considerable number of other technical documents, of which the latest, on "Business Efficiency", has this week been distributed to members.

'On the other hand, the volume of documents submitted to other bodies tends to be less evident because their effective life is limited. Nevertheless the need for such documents provides a continuous demand on the resources of the Committee. None of those who took part in their preparation is likely to forget the time and effort devoted to the memoranda for the two Tucker Committees and the Royal Commission on the Taxation of Profits and Income. Then there is the yearly – sometimes twice yearly – task of examining the Finance Bill at short notice in the hope of persuading the Chancellor to make appropriate changes.

'I believe that, in all, the number of major Council documents which have resulted from the work of the Committee is in the region of forty on taxation alone. When we add other subjects such as company law and bankruptcy law the true measure of the Committee's work begins to become apparent.

Regional Committees' Views

'In its work the Committee has, throughout its existence, had the advantage of being able to obtain the views of the regional committees thereby broadening greatly the area of experience on which the final document can be based. It would be remarkable if on any particular document the Committee were able to accept all the suggestions submitted by the regions and likewise it would be remarkable if the Parliamentary and Law Committee, in its turn, were able to recommend to the Council, without alteration – sometimes major alteration – a document prepared by the Taxation and Research Committee.

'Such differences are inevitable and they must not be exaggerated. The really important point is that without the continuous assistance of the Committee it would have been impossible for the Council to have issued during the past sixteen years the truly large volume of advice to members and others.

'The new *Members' Handbook* has now been launched and its contents will be completed as soon as possible. When this has been done the handbook will provide impressive evidence of what has been achieved. I remember the late Sir Charles Palmour, at the Committee's first meeting in July 1942, which he attended as President of the Institute, expressing the hope that the deliberations of the Committee would prove beneficial to the Institute and to the profession. If the next sixteen years prove as fruitful as the last (and I am sure they will) we need have none of the apprehension which Palmour must have felt as he launched so revolutionary a change in the Institute's affairs.

'I give you the toast of the Taxation and Research Committeee coupled with the names of its present chairman, Mr Macdonald, its first chairman, Sir Harold Barton, and another of its past chairmen, Mr Clayton.'

Response by the Chairman

In response, the Chairman of the Committee said:

'It is always pleasant to take part in a celebration, particularly a celebration which has no exact precedent. Not only are we marking the occasion of the Committee's one-hundredth meeting, but I believe it is the first time the Committee has taken any sort of *social* notice of itself, and certainly as far as my experience goes it is the first time anyone has proposed a toast in honour of the Committee.

'Some of you may have noticed a slightly odd thing about this luncheon; there is the loyal toast and the toast to the Committee but no toast labelled "Our Guests". This is a matter of great delicacy, but there is no harm in having a bit of fun with the delicacies of life so long as nobody's feelings are going to be hurt. It is rather like the end of the caucus race in *Alice*, when the dodo announced, after deep thought, "Everybody has won and all must have prizes". Here we can say "Everybody is a guest and all must have lunch". So that is why there is no toast to our guests and why, instead, I said a word of welcome at the outset. I shall be grateful, however, Mr President, if you will accept on behalf of the Council, the very sincere appreciation of the Taxation and Research Committee for the honour which the Council has done us in making this an Institute function and in the presence here of yourself and the Vice-President.

'I must confess to a moment of uneasiness when the President opened his speech with a reference to Mark Antony. It is true he said he had come to praise us, not to bury us, but Mark Antony was a first-class dissembler and proceeded in *his* speech to do the very opposite of his expressed intention. However, the President has preserved the double dissimilarity and has done what he said he would do – he has indeed praised the Committee and in so doing he has given a wonderfully concise review of the scope of the Committee's work over the past sixteen years.

Insufficient Industrial Members

'In the course of his speech he touched on a matter which is very much in the minds of the Committee at the present time, namely, the shortage of members from industry and commerce. It is not merely a question of paying homage to the ideal of a "fifty-fifty" basis. It is a question of practical necessity if the Committee is not to be hampered in those aspects of its work where the advice and experience of members in industry and commerce are so desirable.

'You have rightly stressed, Mr President, that the time devoted to work on this Committee, if a member is to pull his weight, is by no means inconsiderable and what we have to do is to persuade our friends in industry and commerce that time can and should be made available. Somehow we must get the ear, not only of members of the Institute, but of chairmen and boards of directors generally, because it is evident that many of our members in industry and commerce cannot find time to serve on the Committee without the support and encouragement of the chairman and directors of the organizations which they serve.

'It could be truthfully said that the Institute plays a considerable part in the training of accountants for industry and that it is not unreasonable that industry in return should allow its professional members to play their part in their professional Institute's activities.

'In addition, it is fair to say that a good proportion of the output of this Committee is of considerable interest to industry and commerce.

'My immediate predecessor, Mr Dixon, speaking at the inaugural meeting at Tring of a new London Group a few months ago, was generous enough to say that the benefit was not wholly one-sided – that the contacts and discussions involved in the work of the Taxation and Research Committee had done something for *him* and that his company recognized this factor themselves.

'How this message is to be put across is not for pondering here, but I think it is a matter which ought to be tackled.'

Solid Foundations

After some recollections of past events in the Committee, the Chairman continued:

'It was at the eighth meeting of the Committee that Mr Barton, as he then was, indicated his desire to resign his office, owing to his double duty as Vice-President of the Institute and Chairman of the Committee. That must have been a sad but inevitable moment for the Committee and Sir Harold must have been shouldering a very heavy burden. All of us, I am sure, would wish to pay tribute to the solid foundations that were laid in those early years of the Committee's existence and to the building up of standards and traditions achieved by all our predecessors.

'There are two people without whose service to the Committee its reputation would not be what I hope and believe it is today – Mr Wilkinson and Mr Noyes. Mr Wilkinson acted as Secretary to the Committee, in addition to his other duties, from 1946 to 1954, with the assistance during his last three years of Mr Saunderson. Mr Noyes was appointed full-time Secretary in 1954, and except for occasional poaching by the Parliamentary and Law Committee, he so continues. The work of both of them has been beyond praise and their unfailing willingness and cheerfulness have been remarkable. I have never ceased to marvel at the skill with which, out of possibly half-an-hour's discussion – fragmentary, discursive and occasionally downright irrelevant – they can produce a series of paragraphs of orderly thought, which each of us recognizes as what he had been trying to say if only the other fellows had given him a chance. We are very grateful to them indeed.

Mr President, it must have seemed a venturesome step indeed that the Council took in 1942 in setting up this Committee and nobody is better fitted than you, as one of its founder-members, to express approbation or disappointment sixteen years later. You have spoken very warmly of the Committee's work, and to a larger audience than this, and you have expressed confidence in the Committee's future. We will do our best, I assure you, to justify it.'

In addition there were responses by Sir Harold Barton and Mr J. Clayton.

THE COMMITTEE'S ONE-HUNDREDTH MEETING

The one-hundredth meeting of the Taxation and Research Committee was held at the Institute on Thursday, December 18th, 1958, at 2.45 p.m.

Present: Mr E. N. Macdonald, D.F.C. (in the chair); Messrs R. D. R. Bateman, M.B.E., C. V. Best, A. Blackburn, K. A. Buxton, W. R. Carter, J. Cartner, R. A. Chermside, J. B. L. Clark, C.B.E., L. H. Clark, H. O. H. Coulson, S. M. Duncan, W. F. Edwards, A. R. English, F. J. Eves, E. S. Foden, C. R. P. Goodwin, N. B. Hart, O.B.E., T.D., W. S. Hayes, J. S. F. Hill, G. N. Hunter, J. A. Jackson, R. O. A. Keel, J. A. B. Keeling, D.F.C., S. Kitchen, R. P. Matthews, C. F. Millard, G. P. Morgan-Jones, F. S. Mowforth, L. Pells, C. J. Peyton, A. H. Proud, J. D. Reekie, D. W. Robertson, B. D. Shaw, H. C. Shaw, H. Eden Smith, A. E. Spicer, D. Steele, D. E. T. Tanfield, A. G. Thomas, D. T. Veale, J. W. Walkden, F. J. Weeks, T. S. Welch, A. Whittaker, E. K. Wright, and G. H. Yarnell, with Mr T. W. South, Secretarial Assistant.

Secretary to the Taxation and Research Committee

The Committee unanimously agreed to convey a message to the Secretary, Mr Noyes, expressing the regret of the members of the Committee at his inability to attend the meeting and their best wishes for his speedy recovery.

Arrangements for the Luncheon preceding the Meeting

The Committee unanimously agreed to convey its thanks to the Secretary of the Institute for the excellent arrangements for the luncheon preceding the meeting.

Standing Sub-Committees

Reports were received from the following Standing Sub-Committees:

General Advisory Sub-Committee.
Management Accounting Sub-Committee.
Taxation Sub-Committee.
Planning Sub-Committee.

Business Efficiency

The Committee was informed that the statement 'Business Efficiency – the Contribution which the Accountant can make', had been approved by the Council, dispatched to members for insertion in the *Members' Handbook* and also made available for purchase in booklet form.

Ad hoc Sub-Committees

Progress reports were received from four special sub-committees.

Future Meetings

The next meeting of the Committee was arranged for Thursday, February 19th, 1959, and the following are the normal dates for other meetings in 1959:

Thursday, April 16th, 1959.
,, June 18th, 1959.
,, September 17th, 1959.
,, October 15th, 1959.
,, December 10th, 1959.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27–28 Basinghall Street, London, EC2.

STATUTES
(6 & 7 Eliz. 2)

Chapter 58: Medical Act, 1956 (Amendment) Act, 1958

An Act to amend the provisions of the Medical Act, 1956, relating to the experience required for full registration and to applications for provisional registration, and of the First Schedule to that Act relating to fees, expenses and allowances.

Price 6d net. *August 1st, 1958.*

Chapter 59: State of Singapore Act, 1958

An Act to provide for the establishment of the State of Singapore and for the peace, order and good government thereof; and for purposes connected with the matters aforesaid.

Price 3d net. *August 1st, 1958.*

Chapter 60: Chequers Estate Act, 1958

An Act to amend the deed of settlement set out in the Schedule to the Chequers Estate Act, 1917; to authorize the payment of Exchequer grants in aid of the expenses of the administrative trustees under that deed, as amended; and for purposes connected with the matters aforesaid.

Price 6d net. *August 1st, 1958.*

Chapter 61: Interest on Damages (Scotland) Act, 1958

An Act to amend the law of Scotland relating to the power of the Courts to order payment of interest on damages.

Price 3d net. *August 1st, 1958.*

Chapter 62: Merchant Shipping (Liability of Shipowners and Others) Act, 1958

An Act to amend Part VIII of the Merchant Shipping Act, 1894, and Section 2 of the Merchant Shipping (Liability of Shipowners and others) Act, 1900; and for purposes connected therewith.

Price 9d net. *August 1st, 1958.*

Chapter 63: Park Lane Improvement Act, 1958

An Act to authorize the London County Council to carry out certain street improvements in the vicinity of Park Lane partly on lands comprised in Hyde Park and the Green Park and partly on other lands; and for purposes connected therewith.

Price 1s 3d net. *August 1st, 1958.*

Chapter 64: Local Government and Miscellaneous Financial Provisions (Scotland) Act, 1958

An Act to make new provision for grants out of the Exchequer to local authorities in Scotland and otherwise to amend the law of Scotland relating to local government finance and administration; to abolish the Education (Scotland) Fund; to amend the law of Scotland relating to the valuation for rating of industrial and freight transport lands and heritages and premises of Gas Boards, and to the sittings of valuation appeal committees; to extend the power of trustees under the Trusts (Scotland) Act, 1921, to lend money to local authorities; to provide for increase of the fees payable in Scotland under certain enactments relating to marriage and to registration of births, deaths and marriages; and for purposes connected with the matters aforesaid.

Price 2s net. *August 1st, 1958.*

STATUTORY INSTRUMENTS

The Census of Production (1959) (Returns and Exempted Persons) Order, 1958 (S.I. 1958 No. 1731)

This Order prescribes the matters about which persons may be required to furnish returns for the purposes of the Census of Production being taken in 1959, and exempts from the obligation to furnish such returns any person carrying on an undertaking in the field of production of coal, gas, electricity, oil-shale, crude or refined petroleum or shale oil products to the extent to which, with certain qualifications, the information which would be required by those returns is furnished to the Minister of Power or to the Secretary of State for Scotland.

Price 3d net. *December 31st, 1958.*

The Double Taxation Relief (Taxes on Income) (U.S.A.) Order, 1958 (S.I. 1958 No. 1751)

Article VIII of the Convention between the United Kingdom and the United States of America which is scheduled to the Double Taxation Relief (Taxes on Income) (U.S.A.) Order, 1946, provides that a person resident in one of the countries and subject to tax there on copyright and patent royalties and similar payments derived from sources in the other country shall not be taxed on those payments in that other country unless he is engaged in trade or business through a 'permanent establishment' there. Thus patent royalties paid by a United Kingdom licensee to a United States licensor are liable to tax in the United Kingdom only if the licensor has a permanent establishment here. The effect of the amendment made by the supplementary Protocol contained in the Schedule to this Order is to limit the charge to tax in each country to royalties which are directly associated with the business of the permanent establishment. The supplementary Protocol also provides for the giving of credit in the United States for United Kingdom tax deducted from royalties arising in this country which fall outside the scope of the new exemption.

The change is to take effect in the United Kingdom as from the fiscal year 1956–57.

Price 3d net. *October 22nd, 1958.*

Notes and Notices

THE ACCOUNTANT
Students' Concessional Subscription

Commencing with the issue of January 3rd, 1959, the reduced rate of subscription to *The Accountant* for students will be £3 per annum. This compares with the full rate of £4 18*s*. The concessional rate is granted during the period of articles (or indentures) or for the first five years of registered studentship of a recognized professional body, on a yearly subscription basis with the publishers, Gee & Co (Publishers) Ltd, only. Application forms are obtainable from the professional body concerned or direct from the offices of the publishers, 27–28 Basinghall Street, London, EC2.

Index to Vol. CXXXIX: July–December 1958

The general index to this volume – July to December 1958, Vol. CXXXIX – will be published with the first part of the next volume, dated January 3rd, 1959. The parts of this volume should therefore not be sent for binding until the index has been added.

PERSONAL

MESSRS GEORGE A. TOUCHE & Co, Chartered Accountants, announce that they have moved their offices from Suffolk House, Laurence Pountney Hill, London, EC4 to 3 London Wall Buildings, London, EC2. Telephone: London Wall 3678.

MESSRS MCGILLIVRAY, LOWE & Co, Chartered Accountants, of 130 Mount Street, London, W1, announce that as from January 1st, 1959, they are taking into partnership Mr R. W. BARTLETT, A.C.A. The style of the firm will remain unchanged.

MESSRS PEAT, MARWICK, MITCHELL & Co announce with great regret the death of Mr D. E. BATCHELOR, C.A., the senior partner in the firm's West Riding partnership. The practice is being continued by the remaining partners. (An obituary notice appears below.)

OBITUARY
Mr David Elder Batchelor, C.A.

Mr David Elder Batchelor, C.A., of Leeds, who died on December 12th, was the senior partner in the West Riding practice of Messrs Peat, Marwick, Mitchell & Co, Chartered Accountants. Mr Batchelor, who was 67 years of age, had not been in good health for some time. He was born at Cupar, Fifeshire, and served his apprenticeship with Messrs Mackay, Irons & Co, of Dundee. He qualified as a chartered accountant and was admitted a member of the former Institute of Accountants and Actuaries in Glasgow in 1914, prior to joining the Army on the outbreak of the First World War. On demobilization he joined the staff of Peat, Marwick, Mitchell & Co in London and became one of its senior members. He went to Leeds in March 1944.

Mr Batchelor did not court publicity, but he endeared himself to all who knew him by his unassuming nature and by his kindly personality. Nothing was too much trouble for him to undertake for those who asked for his help and advice in business or personal matters; and by his clients, his partners and his staff he was regarded not only as a sound adviser in matters of accountancy, but as a friend on whom to rely.

Mr Batchelor leaves a son and daughter-in-law and two grandchildren. Mrs Batchelor died in December 1956.

PROFESSIONAL NOTES

Mr Walter W. Fereday, F.C.A., has been appointed chairman of W. Lusty & Sons Ltd.

Mr Stephen R. Aldrich, F.C.A., has been appointed a director of Gratrix (Holdings) Ltd.

Mr Alan Morris, A.C.A., has been appointed assistant chief accountant of Dorman, Long & Co Ltd.

Mr A. F. F. Young, O.B.E., T.D., A.C.A., has been appointed chairman of the Sussex Brick Co Ltd.

Mr J. D. Nuttall, A.C.A., has joined the board of Isetta of Great Britain Ltd.

Mr C. Desmond Macquaide, J.P., A.C.A., financial controller of the Forestal Land, Timber and Railways Co Ltd, has been appointed a director.

Mr Thomas G. Harrison, M.B.E., A.C.A., has joined the board of Bieckert Investment Trust Ltd.

COUNCIL ON PRICES, PRODUCTIVITY AND INCOMES
Resignation of Sir Dennis Robertson

Sir Dennis Robertson, one of the three members of the Council on Prices, Productivity and Incomes, has resigned from the Council in order to have greater freedom to pursue his academic studies. Together with Lord Cohen (chairman) and Sir Harold Howitt, Sir Dennis was appointed to the Council when it was first set up in August 1957. The name of his successor will be announced in due course.

I.M.T.A. TO BE GRANTED ROYAL CHARTER

H.M. The Queen has approved the grant of a Royal Charter to The Institute of Municipal Treasurers and Accountants. Members will in future be known as Chartered Municipal Treasurers, although they will continue to use the designatory letters F.I.M.T.A. or A.I.M.T.A. The name of the Institute will remain unchanged.

JOHN FOORD & COMPANY
56 VICTORIA STREET, LONDON, SW1 Telephone: Victoria 2002 (3 lines)
REVALUATION OF ASSETS
WORKS, FACTORIES, PLANT & MACHINERY, Etc.

DEFENCE BONDS: CONVERSION OFFER

The Treasury has announced that a conversion offer will be made to holders of $2\frac{1}{2}$ per cent Defence Bonds purchased between April 1st, 1949, and September 30th, 1949, and maturing between April 1st, 1959, and September 30th, 1959, of which £$3\frac{1}{4}$ million are outstanding.

These holders will be invited to exchange their holdings into 5 per cent Defence Bonds (Conversion Issue) on the tenth anniversary of the date of purchase. Holders who accept the offer of conversion will be paid interest at $2\frac{1}{2}$ per cent per annum for the period from April 1st, 1959, to the date of exchange, and at 5 per cent per annum from the date of exchange to September 30th, 1959; the maturity premium of £1 per cent will be paid on the date of exchange together with the final interest payment at $2\frac{1}{2}$ per cent. The first payment of interest at 5 per cent on those Bonds converted will be made on October 1st, 1959.

The terms of the new Conversion Issue Bond will be the same as those of the 5 per cent Defence Bonds currently on sale, except that interest will be payable on April 1st and October 1st. The full conversion terms will be given in the prospectus and notice which will be issued to individual holders on December 29th, 1958, together with forms of request for conversion and forms of authority for repayment for the use of holders who do not accept the conversion offer. The list of acceptances of the conversion offer will be closed on January 31st, 1959.

SOUTH-WEST LONDON CHARTERED ACCOUNTANTS' DISCUSSION GROUP

The next meeting of the South-west London Chartered Accountants' discussion group will be held at *The Kingston Hotel*, Kingston upon Thames, on Monday, January 5th, 1959, at 6.45 p.m., when Mr R. K. King will open a discussion on 'A company pension scheme'.

The secretary, Mr L. J. Ive, A.C.A., 52–53 Jermyn Street, London, SW1, will be pleased to deal with inquiries from prospective new members.

LONDON STUDENTS' BADMINTON CLUB

The Badminton Club of The Chartered Accountant Students' Society of London will hold their second trial match of the season at the Nine Elms Baths, Battersea (situated on bus routes 44 and 170), on Saturday, January 10th.

The results of the match, which will start at 10 a.m. and finish not later than 12 noon, will form the basis of selection of teams to represent the Society. Members interested in playing are invited to contact the Hon. Secretary, Mr S. K. Chatterjea, 2 Highgate Avenue, London, N6, as soon as possible. Telephone: Palmer's Green 0175; evening, Mountview 4317.

THE INSTITUTE OF ACTUARIES' YEAR-BOOK

The 1958–59 Year-book of the Institute of Actuaries, contains details of two important changes affecting the work of the Institute: the decision of the members, on the recommendation of the Council, to petition the Queen to grant a Supplemental Charter and to approve amended bye-laws, and the approval by the Council of major alterations in the examination regulations and syllabus – some of these alterations take effect in 1959 and some in 1960.

Membership at July 31st, 1958, totalled 2,152, an analysis of which shows that at July 31st there were 934 Fellows, 332 Associates and 891 students. Of the Fellows, 408 were with British assurance offices, 42 in consulting practice, 33 in industry and commerce and 31 in Government service; of the remaining 420, 254 were employed overseas – the majority with Dominion and foreign assurance companies and in Government service.

INSTITUTE OF INTERNAL AUDITORS

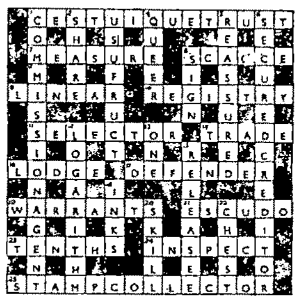
At a recent meeting held in Glasgow it was decided to form a Glasgow Chapter of the Institute of Internal Auditors. Arrangements for the formation of the Chapter are now being made, but in the interim a meeting has been held at *The Kenilworth Hotel*, Queen Street, Glasgow. The meeting was addressed by Mr A. Baird, M.A., LL.B., C.A., Divisional Chief Internal Auditor (Scottish Division), National Coal Board, and there followed a discussion on a matter of interest to internal auditors.

TAX RELIEF FOR PROFESSIONAL SUBSCRIPTIONS

The Institute of Internal Auditors has received approval from the Commissioners of Inland Revenue for relief from Schedule E income tax in respect of subscriptions under Section 16 of the Finance Act, 1958. Similar approval has also been received by The Institute of Book-keepers.

CHRISTMAS CROSSWORD: SOLUTION

The solution to the 'Christmas Crossword', compiled by Mr Kenneth Trickett, A.C.A., which appeared in last week's issue, is as follows:



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HAMMERSLEY KENNEDY & CO, 19 Hanover Square, London, W1, have since 1899 specialized in the sale and valuation of hotels and catering businesses to the exclusion of any other branch of estate agency. The partners are members of the leading professional bodies.

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By H. RIVINGTON. Complete record of cost, depreciation and written-down values. Up to 280 machines in one book. 30/- net; 32/- post free U.K.

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CLASSIFIED ADVERTISEMENTS

Received too late for inclusion in the normal classified columns this week

All replies to Box Numbers to be addressed to Gee & Co (Publishers) Ltd, 4 Drapers' Gardens, Throgmorton Avenue, London, EC2, unless otherwise stated

SITUATIONS VACANT

Professional

ACCOUNTANCY STAFF

SELECTED 'LONDON' VACANCIES

(1) Seniors (3) with three-four years' post-qualification experience. £1,000 p.a. (plus).
(2) Senior or Semi-Senior (qual. or unqual.). Experience of Lloyd's underwriting accounts essential. £900 to £1,250 according to age and experience.
(3) Senior. – Opportunity for recently-qualified C.A. who wishes to specialize in taxation. £900 p.a.
(4) Semi-Seniors (4). 'Senior' type vacancies. £700–£750 p.a.

SELECTED COMMERCIAL VACANCIES

(5) A.C.W.A. (aged 25–35). Exceptional salary and prospects. Opportunity to specialize in O. and M.
(6) C.A. with 'Personality' and minimum four years' post qual. exp. £1,200 p.a. Exceptional prospects as accountant with firm of Lloyd's underwriters.

MERVYN HUGHES & COMPANY

(Accountancy Employment Specialists)
(Col. H. D. Muggeridge, O.B.E., A. B. Harrison)
11 Wardour Street, Piccadilly Circus, W1.

GERrard 0179/0966. No fees to applicants.

BIRMINGHAM CHARTERED ACCOUNTANTS have vacancy for qualified Audit Senior, not over 32 years, and preferably with two or three years' professional experience since qualifying. Prospects of partnership subject to period of satisfactory service. – Apply by letter, stating age, experience and salary required, to Squiers & Co, 15 Colmore Row, Birmingham, 3.

CITY CHARTERED ACCOUNTANTS, small/medium practice wish to engage recently-qualified C.A. of enthusiasm and ability for varied and interesting Senior position. – Full details Box CC3281.

ST PAUL'S AGENCY LTD

All grades Audit Staff	£250–£850
(No fees to staff – very moderate to employers)	
160 Cheapside, EC2.	MET. 8533
150 Fenchurch Street, EC3.	MIN. 9791

Commercial

ACCOUNTS CLERK required in London office of well-established British company operating overseas, to take complete charge of books up to and including trial balance. Preferably aged about 25, some previous experience essential. Permanent progressive post with pension scheme. Salary £550–£600. – Send full details to Box AC3270.

ASSISTANT SECRETARY required by private limited company at Spalding. Age 25–30 years. Applicants must have good appearance, and some commercial experience, preferably in the civil engineering industry, and be capable of meeting and dealing with top level management. – Apply in writing, giving details, to the Secretary, H. Leverton & Co Ltd, Spalding.

ASSISTANT TO CHIEF ACCOUNTANT required by caterpillar dealer in Spalding. Applicants must be qualified or studying for his Final professional examination. Age 22–28 years. – Apply in writing, giving details, to Chief Accountant, H. Leverton & Co Ltd, Spalding.

CRANE LTD require a young Cost and Works Accountant for budget and cost analysis work in their Ipswich factory. He will be responsible to the Works Accountant for the operation of budgetary control throughout the factory. Applicants should preferably have had experience in foundries or engineering works. – Write, giving full details of career to date, stating present salary and salary required, to the Comptroller, Crane Ltd, 15/16 Red Lion Court, Fleet Street, EC4.

Advertisements appearing on this page are subject to a 'Late Fee' of 6d per line (minimum 2s 6d) or 5s per inch for semi-displayed types.

If ordered for more than one insertion they will appear in the normal classified columns in future issues, and all subsequent insertions will be charged at the basic or concessional rates whichever may be applicable.

WANTED. – Chief Accountant for retail business with turnover approx. £70,000 in Home Counties. Salary £750. – Apply, giving age and full details, previous employment, Box WC3285.

Overseas

TAXATION ASSISTANT. – Qualified Accountant with sound experience in income tax work required by a leading firm of accountants practising in Federation of Malaya and Singapore. Post particularly suitable for keen young Accountant desiring specialized income tax work, but applicants up to age of 45 will be considered. Terms include three year tour and first-class passage to and from Malaya. Remuneration dependent on experience but will be sufficient to cover adequate living expenses and a margin for saving. Good prospects for suitable man. – Applicants should write with full details of experience etc. to Box TA8412.

SITUATIONS WANTED

ABLE AND EXPERIENCED TAXATION SPECIALIST, F.T.I.I., 'Taxation Diploma' holder, requires responsible salaried position with good prospects or would consider engagements on consultancy fee basis. London, Surrey, Sussex. – Box AA3180.

BUSINESS OPPORTUNITIES

COMPANY FOR SALE. – Wholesale booksellers. Still trading. Losses approx: £25,000 Assignable loan £9,500. – Please phone MANsion House 5111.

SALARIES AND LOCATIONS

Advertisers are invited to state in their advertisements the approximate salary range that they are prepared to give or require, and also their geographical location.
This will greatly assist those who propose answering advertisements and possibly avoid much unnecessary correspondence between advertisers and applicants.

THE LATEST TIME for the receipt of advertisements on payment of the 'Late Fee' is 11 a.m. on Tuesday. Telephone NATional 0087.

ROYAL EXCHANGE ASSURANCE : INCORPORATED A.D. 1720

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Accountants are invited to apply for the Corporation's Agency.

THE
ACCOUNTANT
Established 1874

December 27th, 19..

Editorial Offices: 4 Drapers' Gardens, Throgmorton Avenue, London, EC2. NATional 8701-2

Advertisement Offices: 4 Drapers' Gardens, Throgmorton Avenue, London, EC2. NATional 0087

Publishing and Trade Counter Offices: The City Library, 27-28 Basinghall Street, London, EC2. MONarch 534.. Cablegrams: 'Countant, Avo, London'

The Accountant is published at 3 p.m. on Fridays

SUBSCRIPTION RATES

Including postage: for one year, £4 18s 0d; for half-year, £2 10s 0d. *Airmail edition*, including postage: for one year, £7 15s 0d; for half-year, £3 17s 6d

TARIFF FOR CLASSIFIED ADVERTISEMENTS

Advertisers are requested to note that terms are prepaid

Concessional rates, which are quoted in brackets, are given for advertisements ordered for three or more consecutive insertions. They cannot be allo... retrospectively or for advertisements which are to appear at fortnightly or longer intervals

	Situations and Articles Vacant	Situations and Articles Wanted	All Other Categories (except Official Appointments)	Official Appointment.
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Semi-displayed, per inch (min. ½ inch)	£4 0s 0d (£3 0s 0d)	£3 10s 0d (£2 10s 0d)	£5 0s 0d (£3 10s 0d)	—

Box Numbers – For first insertion 3s; each subsequent insertion 1s 6d — Additional lines are charged *pro rata* (approximately six words pe...)

All Classified Advertisements will also appear in *Taxation*

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SITUATIONS VACANT

Professional

AAVIAN APPOINTMENTS AGY. require and supply all staff. Professional and Commercial. £5 to £3,500 posts. Male and female. Permanent and temporary. No fees to staff. – 50 Bow Lane, EC4. CITy 3443) & 109 Tottenham Ct Rd, W1 (EUS. 8406).

A BETTER ACCOUNTANCY, AUDIT OR TAXATION job at £300–£1,000 per annum. No fees to staff. – Ernest Agency, 116 High Holborn, WC1 (opposite Holborn Tube Station). (CHA. 8605.)

ABLE CHARTERED ACCOUNTANT, at least three years' qualified experience, for Somerset practice. Private company. Trust and landed estate accounts and incomplete records, with relative tax work. Partnership prospects. – Box AC3135.

A C.A., recently qualified, required for medium-sized Chartered practice in Somerset. Knowledge of incomplete records essential. Salary according to age and experience. No immediate prospects of partnership. – Apply, giving usual particulars, to Box AR8278.

ACCOUNTANCY STAFF

PROFESSIONAL, AND COMMERCIAL

Senior and Semi-Senior. All districts.

£600–£1,200 p.a.

CONDUIT STREET BUREAU

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NO FEES TO STAFF

ACCOUNTANCY STAFF

Senior £800–£1,000; Semi-Senior £550–£750; Junior £250–£450

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S. H. OLIVE, F.A.C.C.A.
Staff specialists to the profession.
49 Queen Victoria Street, EC4.
Established nearly quarter of a century.
CITy 2781 and 2912 — No fees to staff.

SITUATIONS FILLED

We have received information that the situations advertised under the following box numbers have now been filled:

QA2322, QA3045, ME3046

Advertisers who wish to help unsuccessful applicants by announcing that posts advertised in previous issues have been filled are invited to inform the Advertisement Manager at 4 Drapers' Gardens, Throgmorton Avenue, EC2 (NATional 0087). The box numbers of their advertisements will be published free of charge in this panel.

ACCOUNTANT (preferably qualified) required by Holborn Chartered Accountants to specialize in department dealing with the accounts and taxation of property companies. Similar professional experience desirable. Salary from £1,050 per annum according to experience. – Applications in writing, with full details, to Box AP3177.

ACCOUNTANTS in Cornwall have vacancy for young Qualified Accountant with knowledge of incomplete records and personal taxation and accustomed to direct contact with clients. Pension scheme. – Apply, with details of age, experience and salary required, to Box AI3176.

ACCOUNTANTS, MANAGERS, Audit Clerks, Typists, Book-keepers, Telephonists, Shorthand-typists, Cashiers, Clerks (all kinds), Comptometer Operators, Vacancies (both sexes) all areas. – Berger's Agency, 69 South End, Croydon. (CROydon 1642.) No charge to staff.

AUDIT AND TAX STAFF

Senior	£800–£1,100
Semi-Senior	£500–£750
Junior	£250–£450

GRESHAM ACCOUNTANTS' REGISTER LTD

(The Profession's Employment Specialists)

79 Gresham Street, EC2 (first floor)
MONarch 9416
Open Saturday Morning
NO FEES TO STAFF

AUDIT CLERK (male or Female) required by firm of Accountants in Barnsley, Yorkshire. – Apply, stating age, experience and salary required, to Box AC3132.

AUDIT CLERKS. – Many vacancies waiting for Senior, Semi-Senior or Junior. – Call Booth's Agency, 80 Coleman Street, Moorgate, EC2. MONarch 6977 (8 lines).

A VACANCY OCCURS for suitably experienced Accountant to take charge of branch office in small west Sussex town. Experience of incomplete records and working knowledge of taxation essential. Salary in region of £700–£800 and pension scheme available. – Applications to Box AV3222.

CHARTERED ACCOUNTANT (age over 30), with professional experience, including incomplete records, required for busy N. Staffs practice. Excellent prospects of early partnership. Two-bedroomed flat available. – Full particulars, including present salary, to Box CA3251.

CHARTERED ACCOUNTANT, aged 25–30, required by rapidly-expanding firm near London Bridge. Excellent opportunities for young man of ability who is prepared for hard but interesting work. – Box CA3265.

CHARTERED ACCOUNTANT, aged under 30, with two years' post-qualification experience, required by medium-sized City firm of Chartered Accountants, for senior position on staff. Commencing salary £1,000 with pension scheme after probationary period. Position could offer opportunities for advancement in due course to right person. – Write, giving full particulars age, education, and professional experience, both before and after qualifying, to Box 'N.Z.', c/o J. W. Vickers & Co Ltd, 7/8 Great Winchester Street, EC2.

CHARTERED ACCOUNTANT (Lincs) has vacancy for young Chartered Accountant with experience in provincial practice. Salary £700. Partnership prospects. – Write, giving full particulars, to Box CA3175.

FOR 'LATE FEE' ADVERTISEMENTS SEE PRECEDING PAGE.

CHARTERED ACCOUNTANT

West End Chartered Accountants desire t... a senior position in their organization. Appli... cations are invited from men who are ... older than 35 and who have had at leas... years' useful experience since qualifying. H... should have more than average intellig... ability to command and control staff, initiat... personality and those qualities which make... the potential principal to which an appointm... could well lead.

The initial salary is £1,250 p.a. There ... be good annual increments, a pension sch... and other benefits as well as the opportu... referred to above. – Please write to ... CA8364.

CHARTERED ACCOUNTANTS, in ea... require young C.A. with a view to ... partnership. Some capital essential. – Wri... CA3274.

CHARTERED ACCOUNTANTS, south ... require a qualified Senior Assistant. Exper... incomplete records, taxation and private com... Range of salary £700–£850 per annum with ... prospects according to experience and abi... Box CA8397.

CHARTERED ACCOUNTANTS (Strand) ... vacancy for an Audit Assistant, post offers ... prospects with commencing salary of £650 to ... per annum, according to experience. – ... giving full details of age and experience, t... CA3223.

CITY C.A.s require Qualified Senior Assistant experienced in taxation and co... audits. – State full details, including age, natio... experience and salary required, to Box CC32...

CITY CHARTERED ACCOUNTANTS re... recently-qualified Assistant of good person... Excellent opportunity of acquiring post-qual... experience in a wide range of work. – Box CC...

DONCASTER CHARTERED ACCOUNTA... require Competent Senior Assistant, c... taking charge audits, completing account... working with minimum supervision. Ta... experience essential. Progressive post to ... applicant. – Write, full particulars including ... experience, qualifications, commencing sala... and when available, Box DC3266.

GEORGE A. TOUCHE & CO have va... in their London office for Qualified Accou... – Apply to Suffolk House, Laurence Pountney ... EC4.

LARGE CITY FIRM of Chartered Accou... have vacancies for Qualified Accountants. ... experience and salary. Five-day week. Pension ... – Box LC8299.

LEADING FIRM OF ACCOUNTANTS ... applications for employment at home an... seas from Qualified Accountants. Opportuni... gaining knowledge in all branches of accou... Excellent prospects for newly-qualified m... London. Salaries dependent on experience. – Box LF8245.

MEDIUM-SIZED WEST END FIR... Chartered Accountants has vacancy fo... wishing to enlarge his experience. Sa... arrangement. – Box MW3205.

OXFORD. – Semi-detached house availa... years certain) for Senior Audit Assist... varied experience in small and medium ... Apply, giving particulars of age, salary ... and experience, Critchley, Ward & Pig... Broad Street, Oxford.

The latest time for the acceptance, alte... cancellation of advertisements appeari... pages is normally 10.30 a.m. on Mo... ceding publication.

When it becomes necessary, owing ... or Public holidays or for any other reas... to press earlier, notice of such alterati... given on this page.